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Reforms: The Case of EU Free Trade Area Agreements

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Abstract

Governments are increasingly entering FTAs and mega-regionals to secure market access for their firms. Utilization rates are used to monitor whether firms are using these FTAs. This paper is part of a recent stream of studies to dash out enduring myths that preferences are not used when preferential MFN rates are low or for unknown or vague reasons. Contrary to this sort of conventional wisdom this study advocates that low utilization rate is a valuable and unequivocal sign that reform of rules of origin and related administrative procedures is needed to make the FTA attractive and meaningful to the private sector. By using a “repeated offender” methodology this paper identifies a series of product specific rules of origin (PSROs) causing low utilization rates. Such PSROs are the candidate for reforms towards more lenient requirements that are commercially viable for firms.

Keywords

Free Trade Agreements; Trade Preferences; Rules of Origin; Product-Specific Rules of Origin; Preference Utilization Rates

JEL codes: F13, F14, F15

Preface

This study is a follow up to the UNCTAD-National Board of Trade Sweden publication on the use of EU FTAs (Hereinafter “the National Board of Trade Sweden/UNCTAD report). Such study challenged some enduring myths on preference utilization in free trade agreements.

It was commonly believed that free trade agreements, in general, are not used to a high degree. However, the National Board of Trade Sweden/UNCTAD report indicated that the EU’s free trade agreements, in general, are used to a high degree.

In fact the National Board of Trade/UNCTAD report found that the average total ‘preference utilisation rate’ (2009-2013) of the EU’s free trade is on average 75 percent.

Secondly the National Board of Trade Sweden/UNCTAD report stated that even though the utilization rates of EU’s free trade agreements is on average about 75 percent, it is important to identify possible pockets of low utilisation at a more detailed level. These pockets of low utilization have to be identified in the individual free trade agreements and at an industry and/or product-specific level

The present study starts such an analysis exactly from where the former National Board of Trade Sweden/ UNCTAD study anticipated that further analysis would be carried out on these pockets of underutilization and their link to rules of origin.

This study is part of series of research and round tables on rules of origin organized under the joint work program of EUI and UNCTAD on trade facilitation and rules of origin. Under this program a platform has been established to ensure a continuous dialogue among experts, practitioners, researchers, Government, private sector and firm representatives, as well as international organizations such as WTO, ITC, WCO and the International Chamber of Commerce (ICC).

Further details are available <https://globalgovernanceprogramme.eui.eu/research-project/trade-facilitation-and-rules-of-origin/>

Introduction*

Utilization rates are increasingly used to monitor the effective use of preferential trading arrangements of reciprocal or autonomous nature. The methodology of calculating utilization rates has been first conceived in UNCTAD back to 1975 and most recently reaffirmed in WTO in the context of the debate over preferential rules of origin for LDCs.

The National Board of Trade Sweden/UNCTAD report found that utilization rates are 90 percent for partner country exporters and 67 percent for EU exporters.

This means that the EU partner country exporters use the EU's free trade agreements to a higher degree— by 23 percentage points with respect to EU exporters. Why is that? What is the reason for such asymmetrical utilization rates? In a FTA, rules of origin and related administrative procedures are the same for both partners.

Moreover, while average figures are relatively high, there are pocket of underutilization linked to specific sectors and product specific rules of origin.

The present study deepens the analysis of the previous report to identify the reasons for 1) asymmetry of utilization rates and 2) the critical products responsible for such pockets of underutilization linking it to product specific rules of origin (PSRO) and related administrative procedures

The study develops a new methodology to identify PSRO defined as *repeated offenders* at the 4-digit level of the harmonized system (HS) as a reason for systematic pockets of underutilization in EU FTAs.

This study brings new evidence that the reason for such low utilization of trade preferences is mainly due to stringent rules of origin and their related administrative procedures.

This paper is part of a recent stream of studies to dash out enduring myths that preferences are not used when preferential MFN rates are low or for unknown or vague reasons. Contrary to this sort of conventional wisdom this study advocates that a low utilization rate is a valuable and unequivocal sign that reform of rules of origin and related administrative procedures is needed to make the preferential trading arrangement attractive and meaningful to the private sector.

1. Linking utilization rates to rules of origin

Governments are increasingly negotiating FTAs and mega regionals to create market access for their companies. Only recently, Governments are realizing the importance of the implementation and effective use of FTAs by their companies. Hence, it is not surprising that the utilization of trade preferences has been object of a revival also thanks to the work done by LDCs in getting to the WTO Nairobi Decision on preferential rules of origin. Such Decision contains an obligation of preference granting countries to LDCs to notify to the WTO secretariat on the utilization rates of such trade preferences.

* We are indebted to Lars Nilsson at the European Commission for assistance with access to data on EU 'preference utilisation rates' and for valuable comments and suggestions, The views expressed in this paper are those of the authors and do not necessarily reflect those of the United Nations or the National Board of Trade of Sweden.

This in turn meant that the WTO had to agree on a definition of utilization rate¹ and that the performance of the various trade preferences schemes granted to LDC is object of analysis by the WTO secretariat² and members, especially LDCs³.

There have been a series of interesting findings based on the first part of this study⁴ where asymmetrical utilization rates were identified in the case of the EU-Switzerland FTA and the EU-South Korea FTA. Such findings were brought to the attention of WTO members and have been further developed in the Committee on Rules of Origin⁵

Utilization rates may reveal a merciless picture of a trade preference either of unilateral or reciprocal nature. This is the main reason why Governments gradually became wary or made a variety of objections to the use of utilization rates and began to question:

- a) The use of utilization rates to measure the effectiveness of an FTA or a given scheme of trade preferences, and;
- b) The link among low utilization and rules of origin.

The objections raised under (a) are that some trade preferences may not be used simply because there is an overlapping of trade preferences or other competing duty rebates schemes, such as the possibility of duty drawback⁶. However, such argument in reality reinforces the usefulness of utilization rates to measure the effectiveness of various competing and overlapping trade preferences as utilization rates clearly show that one preferential scheme may be better than the other one allowing trade policy choices and an improved exploitation of the more advantageous trade preferences.

The link of utilization rates with rules of origin under (b) has been demonstrated in variety of studies and corroborated by factual evidence and testimonials from companies. Yet it stirs debates in negotiating circles and in the literature.

The utilization rates provide figures for the value of trade that has not received preferences at the time of customs clearance while it was eligible for preferential rates of duty. However, the utilization rates does not provide a clear and definitive reason on why the preferential rate has not been requested or granted at the time of customs clearance. From a point of view of customs law, the denial of the preferential duty rate means that at the time of importation the preferential rate of duty has not been granted and MFN rate of duty has been instead being imposed.

The reason for such denial of preferential treatment from the point of view of customs law may be due to one of the following factors:

¹ See WTO document G/RO/M/68. of March 2017

² See for instance the latest Note of the WTO secretariat on mineral products, not yet issues at the time of this writing

³ See for instance the submission of the LDC "Further evidence from utilization rates" about the utilization of the preferences granted by Switzerland to LDC contained in WTO document G/RO/W/186 of 6 May 2019. This document is of particular importance since it marked the start of a dialogue between the WTO LDC, assisted by UNCTAD group and Switzerland that permitted to identify the reasons for low utilization of trade preferences linked to transshipment requirements.

⁴ See The Use of the EU's Free Trade Agreements Exporter and Importer Utilization of Preferential Tariffs available at <https://unctad.org/webflyer/use-eus-free-trade-agreements-exporter-and-importer-utilization-preferential-tariffs>

⁵ See the Direct consignment rules and low utilization of trade preferences submission by the LDC WTO **group** WTO document G/RO/W/191 of 9 October 2019 and the Note from WTO secretariat »Impact of direct consignment requirements on preference utilization by Least Developed countries, WTO document G/RO/W/187/Rev.1 of 24 February 2020

⁶ For instance the GSP/AGOA in the case of unilateral trade preferences might be overlapping. In the case of FTAs, a valuable example is the Vietnam -Japan preferential trade relations where there is 1) a Japan-ASEAN FTA ,2) a Vietnam-Japan bilateral FTA, 3) The Comprehensive and Progressing Trans Pacific Partnership CP-TPP and when implemented the Regional Comprehensive Partnership Agreement (RCEP). On top Vietnam still beneficiary of the Japan GSP

- a) Lack of presentation of documentary evidence related to the originating status of a product presented to customs such as a certificate of origin (CO) or an exporter or importer declaration (ED/ID) due to failure to comply with product specific rules of origin requirements ⁷;
- b) Lack of presentation of documentary evidence related to ancillary administrative requirements related to origin, such as direct consignment or related procedures (i.e. lack of bill of lading, lack of certificate of non manipulation, mismatch of the certificate of origin/exporter declaration with bill of lading, third country invoicing⁸ and other related documentary evidence);
- c) Low preferential margin meaning that there has been a deliberate choice by a firm not to use of the trade preference because of the low preferential margin that made compliance with rules of origin not profitable,
- d) Any other reason that are usually attributed in literature to different factors such as existences of competitive duty rebate schemes, drawback, etc.

There is hardly any evidence tracking or identifying what is the most common reason for the failure to provide a certificate of origin or an exporter or importer declaration (ED/ID). There are a number of empirical studies based on econometrics⁹. Evidence from the business sector in beneficiary countries and from business surveys, literature and field activities indicate that in the majority of cases, failure to provide a CO/ED/ID is mainly due to excessive stringency of product-specific rules of origin (PSROs) or related administrative documentary evidence¹⁰.

The most recent findings and studies are converging that non-utilization of trade preferences is due to rules of origin requirements under (a) and (b) that are mainly related to non compliance with the rules of origin, such as an ad valorem percentage requirement, a change of tariff classification or a specific working of processing requirement or a failure to comply with ancillary administrative requirements related to direct shipment, third country invoicing or related administrative requirements. The inability of a firm to comply with (a) and (b) may be closely related. The lack of documentary evidence related to origin under (b) has been one of most underestimated reason of low utilization of rules of origin. Recent research¹¹ has shed some lights on this area that has not yet attracted the attention that deserves especially in terms of potential for trade facilitation.

⁷ The failure to comply with PSROs requirement is mainly due to lack excessive stringency of a given PSRO requiring according a) an ad valorem percentage that was not reachable given the sourcing policy of a firm b) a Change of tariff classification requirement that impeded the use of a non originating input, (c) a working or processing requirement that was not possible to perform given the insufficient manufacturing capacity of a firm

⁸ For a definition of third country invoicing, one of the most common reason for non utilization of trade preferences not related to origin see Guidelines on certification of origin, 2014 and 2018, World Customs Organization.WCO

⁹ See Inama, Rules of origin in international trade, 2021, forthcoming Cambridge University Press. and Jiso Ji Jisoo Yi Rules of origin and the use of free trade agreements: a literature review World Customs Journal, 2016,

¹⁰ See various presentation from private sectors representatives discussing the link between RoO and ability to use trade preferences presentation of Jon Edward at UNCTAD available at https://unctad.org/system/files/non-official-document/aldc2014_06_edwards_en.pdf and related presentation of Bianchi as importer available at https://unctad.org/system/files/non-official-document/aldc2015_Florence_p11_Bianchi.pdf. See, Roberto Soprano, The Challenge of Designing 'New' Rules of Origin in International, Trade paper made for European University Institute (2016). See also UNCTAD studies, "Improving market access for least Developed countries "UNCTAD/DITC/TNCD/4, may 2001 available at <https://unctad.org/system/files/official-document/poditctncd4.en.pdf>; Trade preferences for LDCs: an early assessment and possible improvement, UNCTAD/ITCD/TSB/2003/8, available at https://unctad.org/system/files/official-document/itcdtsb20038_en.pdf.; See WTO document Modalities for the calculation of preferences utilization G/RO/W/161 25 August 2016 and subsequent notes prepared by the WTO secretariat on preference utilization;

¹¹ See Stefano Inama and Pier Paolo Ghetti « The real cost of rules of origin: A business perspective to discipline rules of origin in a post COVID-19 scenario in Global Trade and Customs Journal, Global Trade and Customs Journal, Volume 15, Issue 10, 2020 and submission from the LDC WTO group and notes from the WTO secretariat listed in footnote 6 above

Thanks to recent debates in WTO Committee on Rules of Origin fuelled by the research conducted by the authors¹², it has become evident that the administrative requirements to comply with rules of origin under (b) are a decisive factor for the utilization or non-utilization of trade preferences. The requirement of documentary evidence of direct consignment is the most glaring example of administrative requirements that have a bearing on utilization rates.¹³

Low preferential margins under (c) and other reasons under (d) are most frequent anecdotal arguments to dismiss the existing link between utilization rates and rules of origin. A recent report from the National Board of Trade Sweden (Hereinafter the National Board of Trade Sweden report)¹⁴ based on transaction and firm level data analysis contains valid findings against such general assumptions:

- *It is generally assumed that companies in general fail to use free trade agreements due to complicated rules and administrative burdens. This analysis, however, indicates that companies tend to utilize the tariff preferences when large import transaction values are involved and the potential duty savings are high.*
- *It is generally assumed that free trade agreements are underutilized by small companies. This analysis, however, indicates that small companies might be even more efficient users of free trade agreements than large companies.*
- *It is generally assumed that the level of tariff reductions is the main driver of companies' use of free trade agreements. This analysis, however, indicates that the size of the tariff reduction is less significant than the import transaction value.*

In fact, the results of this report should set the end for the enduring myth that low preferential margins are a reason for low utilization. In spite of the numerous econometric studies to quantify the cost of rules of origin there is no evidence for such assumption.

The most intuitive argument against the notion of low preferential margin as justification for low utilization stems from the fact that the MFN rate for cars in the US is as low as 2.5%. Yet successive US presidents under NAFTA and most recently the Trump administration have spent their time to devise stringent rules of origin in NAFTA and USMCA to oblige more US content in cars using as leverage the preferential margin of 2.5%. In order to save the preferential margin of 2.5% car manufacturers have to comply with stringent rules of origin under USMCA going up to a 75% of regional value content with workers earning not less than 16 USD per hour. According to USTR office this provision “*ensure that United States producers and workers are able to compete on an even playing field, and incentivize new vehicle and parts investments in the United States*”

If a low preferential margin, such as 2.5%, is not commercially meaningful, such restrictive rules of origin would be ineffective to incentivize cars manufacturers to comply with USMCA since they always have the option to pay the 2.5% and not comply with such stringent rules. However, the large majority of manufacturers are expected to comply with such new requirements as shown by the high utilization rates for cars under NAFTA.

It should be obvious that even a preferential margin as low as 2.5% could be commercially meaningful when related to a sector like automotive where the trade value is significant and competition is fierce.

¹² ibidem footnote 5

¹³ ibidem footnote 6

¹⁴ See Who “Uses the EU’s Free Trade Agreements? A transaction-level analysis of the EU–South Korea free trade agreement” by Jonas Kasteng and Patrik Tingvall., National board of trade of Sweden, 2019 available at <https://www.kommerskollegium.se/globalassets/publikationer/rapporter/2019/publ-who-uses-the-eus-free-trade-agreements.pdf>,

Low utilization rates are also justified by the existence of other duty rebates and/or duty drawbacks. This argument is an anecdotal variant of (d) as it is rather obvious that duty rebates and drawbacks are different customs procedures that are not competing or should not be confused with preferential duty rates. Normally data entry by customs separates under different columns duty drawbacks, rebates and utilization rates of trade preferences.

This study conducted on the basis of the findings of the previous report on the use of EU FTAs¹⁵ starts from the final consideration of the precedent report that even though the use of the possibilities of tariff reductions in the EU's free trade agreements is on average about 75 percent, it is important to identify possible pockets of low utilization at a more detailed level.

These pockets of low utilization have to be identified in the individual free trade agreements and at an industry and/or product-specific level.

The present study aims at showing a methodology to use utilization rates to identify "repeated offenders", i.e. product specific rules of origin that are causing low utilization of trade preferences.

Utilization rates as argument for a reform of rules of origin has been raised in literature¹⁶ and recently in WTO by the LDCs on the basis of a study prepared for the WTO LDC by UNCTAD.¹⁷ In this study the spectacular raise of utilization rates and volume of exports following the reform of Canadian and EU rules of origin were contrasted with the stagnant performance of the US GSP/AGOA and Japan GSP rules of origin that have not undergone any significant reform since their inception in early 1970s¹⁸. Yet questions were raised about the casual link of such reforms of rules of origin with the corresponding rise in utilization rates and volume of exports. Testimonials made in the WTO Committee on Rules of Origin by the firms benefitting from such reforms were noted but did not totally remove perplexities.

It is obvious that utilization rates of a given preferential agreements represent a check-up of the status of well being of a preferential trade arrangement. Low utilization rates are an unequivocal sign that the preferential trade arrangement is not working properly. Conversely, high utilization rates should not be blindly considered as a positive sign since such high utilization rate may hide low trade volume and/or a low coverage of the preferential trade agreement. This is the case of the US GSP in the case of LDC countries for instance¹⁹. The reality is that like a medical check-up, the results of the analysis should be read by trade experts that are able to draw the necessary conclusions confronting them with other datasets and evidence from firms.

This study shows how the application of a methodology based on filtering criteria joined with statistical analysis permits to identify a "malaise" in FTAs, such as the overly restrictive product-specific rules of origin and/or related administrative provisions that have been found to cause low utilization rates in various FTA, across FTAs under different direction of trade.

In certain cases, the result of this analysis has later been confirmed by the findings of other surveys, like the report of the implementation of EU-South Korea FTA and the reforms that have been undertaken in recent FTAs negotiations, such as the case of the EU-Mexico FTA and the EU-Japan FTA. In other cases, further research and counterfactual with the private sector should be carried out using the results of this analysis.

¹⁵ *ibidem* footnote 5

¹⁶ See Trade preferences for LDCs: an early assessment and possible improvement, UNCTAD/ITCD/TSB/2003/8, available at https://unctad.org/system/files/official-document/itcdtsb20038_en.pdf. and Stefano Inama, rules of origin in international trade, 2009 and 2021, forthcoming

¹⁷ See Challenges faced by LDCs in complying with preferential rules of origin under unilateral preference schemes *Paper Presented by Uganda on Behalf of the LDCs Group*, WTO document **G/RO/W/148** of 28 October 2014

¹⁸ Japan liberalized PSROs for garments of Chapter 61 and 62 of the Harmonized system recently.

¹⁹ *Ibidem* footnote 17

This study, like the previous National Board of Trade Sweden/UNCTAD report, is based on data from 17 EU free trade agreements (including a customs union in the case of Turkey), i.e. the bilateral trade relations, between the years 2009 and 2013, where data on preference utilization are available on both parties, in order to make a comparative analysis (see Figure 1). Not all free trade agreements covered in this analysis have been in force for all these years and the data on the EU's preference utilization, i.e. EU exports and/or partner country exports, are complete for all years in the period. The development of the preference utilization before and after the years 2009 and 2013 is not considered in the analysis since the data from partner countries are not available.

The EU's total number of free trade agreements (and customs unions) within different continents as of 2013, i.e. 33 free trade agreements, or rather bilateral free trade relations, as well as the free trade agreements covered by this analysis (in cursive), were the following:

- Europe (Iceland, Norway, Liechtenstein, Switzerland, Andorra, San Marino, Turkey, Faroe Islands, the former Yugoslav Republic of Macedonia, Albania, Lebanon, Bosnia and Herzegovina, Montenegro and Serbia)
- Africa (Tunisia, Morocco, South Africa, Egypt and Algeria)
- Asia (Israel, Palestine, Jordan, South Korea)
- North America (Mexico, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama), and South America (Chile, Colombia and Peru).

The data on preference utilization in this report is based on import data that are collected and processed by the different parties concerned. The existence of different sources for the import data might limit the comparability between the partner countries and the EU due to possible differences in the quality of the data and the different methods possibly used.

Furthermore, with the only exception of Switzerland, specific duties have not been converted to *ad valorem* equivalents, preferences within tariff rate quotas have not been considered in the calculations, and data on the EU's unilateral scheme of preference utilization, the 'generalised scheme of preferences', are not excluded in the calculations on preference utilization for the partner countries that might benefit from both preferential schedules albeit this occurrence has been limited by the entry into force of the GSP regulation of 2014 progressively excluding from GSP benefits those countries that have entered.

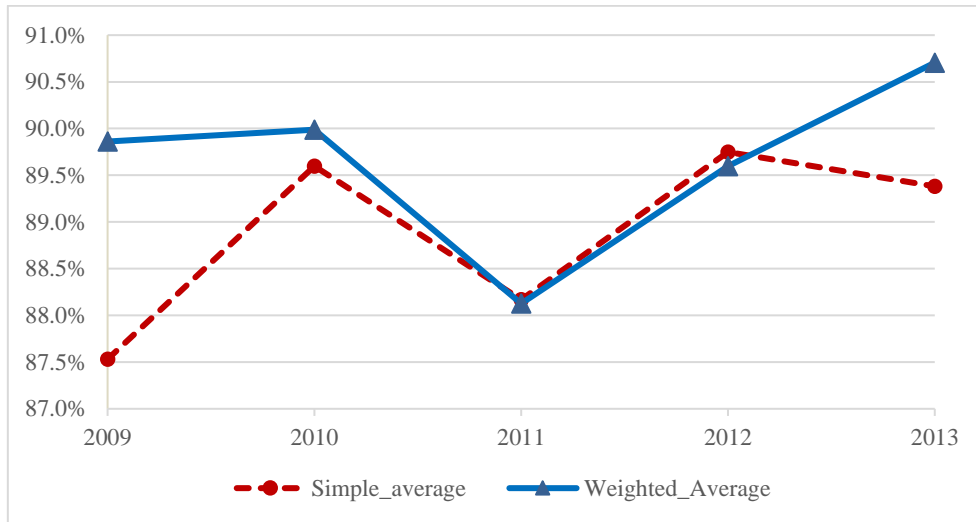
2. EU FTAs²⁰ - Identifying the reasons of asymmetrical utilization

As it has been pointed out in the National Board of Trade Sweden/UNCTAD report, the "*average total preference utilization rate (2009-2013) of the EU's free trade agreements is 90 percent for partner country exporters and 67 percent for EU exporters. The average 'preference utilization rate' for both parties is 75 percent. This implies that the EU's free trade agreements are used to a generally high degree.*"

²⁰ The import data used in this analysis are originally collected by the partner countries and have thereafter been processed by the European Commission. In addition, data from United Nations Comtrade International Statistics Database and the UNCTAD TRAINS Database have been used. The existence of different data stemming from a series of partner countries might limit the comparability between the partner countries and the EU. In addition, the calculations of the EU's export and duty values with regard to the utilized tariff preferences in the EU's free trade agreements are approximations based on the real tariff preference utilization rates of the EU exports. The data presented in the report is, however, the closest approximation of the reality that is currently available.

As shown in Figure 1 below, both the simple and weighted average utilization rates²¹ of EU imports from the selected partners²² are relatively high ranging from 87% to almost 91 % over the 2009 and 2013 period.²³ These high figures are matching a preliminary analysis made by Inama (2013) finding that the utilization rates of NAFTA and other US trade FTAs have been high, in some case above the 90% figure.²⁴

**Figure 1 – Aggregated utilization Rates of EU Imports from selected FTA Partners
Simple and Weighted Average**



The overall high utilization rate of EU FTAs imports depicted in the above figure 1 above in reality captures only a fraction of the total picture. When the analysis is carried out at more disaggregated level, by direction of trade, partner and products, the utilization rates vary substantially indicating areas where PSROs and other administrative issues related to origin are problematic.

In fact, a closer analysis depicts a more fragmented scenario. Figure 2 below shows the utilization rates of EU exports to the same selected partners over the same period. The utilization rate is significantly lower, ranging around 70%, with lower utilization rates in selected chapters, such as garments of HS chapter 61, knitted and crocheted garments, 62, not knitted and crocheted garments and 64, shoes.

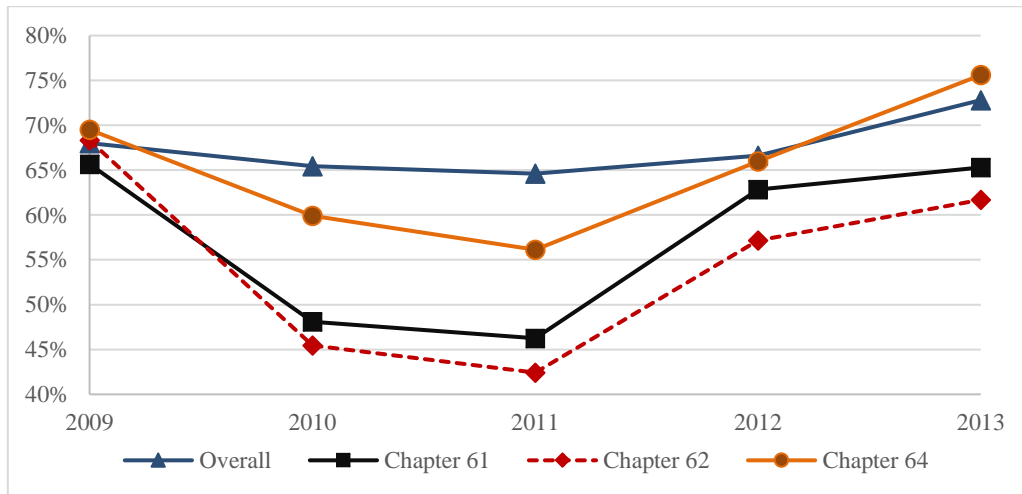
²¹ The simple average is the arithmetic mean of utilization rates calculated at the HS 4-digit product level. The weighted average is calculated as the sum of imports receiving preferential treatment divided by the sum of imports eligible for the preferential treatment over all HS-4 digit level products and FTA partners.

²² As specified in section 3.2.

²³ These averages are drawn from the UNCTAD/Swedish Board of Trade Study and includes the following countries Albania, Bosnia and Herzegovina, Switzerland, Chile, Algeria, Egypt, Iceland, Republic of Korea, Lebanon, Morocco, Mexico, Macedonia, Montenegro, Nicaragua, Norway, Panama, Peru, Serbia, Tunisia and Turkey. As explained in section 3.2 below not all these countries have been taken into account in the analysis of the repeated offender discussed in section 3.

²⁴ See presentation made at WCO workshop, 2013

**Figure 2 – Utilization Rates of EU Exports to selected FTA partners
Apparel and clothing (HS 61, 62), footwear (HS 64) and overall rates
(weighted average)**



The National Board of Trade Sweden/UNCTAD report acknowledged such a disparity shown in figure and 2 above: *“The partner country exporters, however, use the EU’s free trade agreements to a higher degree at a relative level – by 23 percentage points.*

Admittedly, aggregated data of EU imports from partners countries contained in Table 1 below, showed a significant disparity on the utilization rates according to the direction of trade where the EU exports to the partner countries were showing significantly lower utilization rates than the corresponding exports from the partner countries.

Table 1 suggests an immediate reflection and a question: In an FTA, the rules of origin and related administrative procedures are the same. How is it possible to explain such an asymmetry in utilization rates depending on the direction of trade?

In addition, such asymmetry is somewhat counterintuitive since the EU partners, especially developing countries, should face more difficulties in complying with rules of origin requirements given their lower industrial base and possibilities of sourcing inputs is less developed and diversified than the EU counterpart.

Table 1 - Difference of utilization rates according to the direction of trade

Free Trade Agreement	EU Exports (%)	Partner Country exports (%)	Difference (p.p.)
Iceland	88	98	-10
Switzerland	72	91	-19
Turkey	83	91	-8
Tunisia	26	95	-69
Mexico	44	69	-25
Morocco	51	96	-45
Macedonia	75	92	-17
Chile	80	91	-11
Egypt	44	94	-50
Algeria	77	87	-10
Albania	78	86	-8
Lebanon	39	83	-44
Bosnia and Hercegovina	69	93	-24
Montenegro	65	92	-27
Serbia	84	91	-7
South Korea	57	76	-19
Nicaragua	4	89	-85
TOTAL	67	90	-23

An initial analysis presented at a WTO meeting by Inama and Crivelli on October 2018²⁵ started to critically examine the reasons for such asymmetry. It first pointed out the asymmetrical average utilization rates that was relatively high on EU imports [87%-91%] and significantly lower in EU exports to the partner countries [61%-73%].

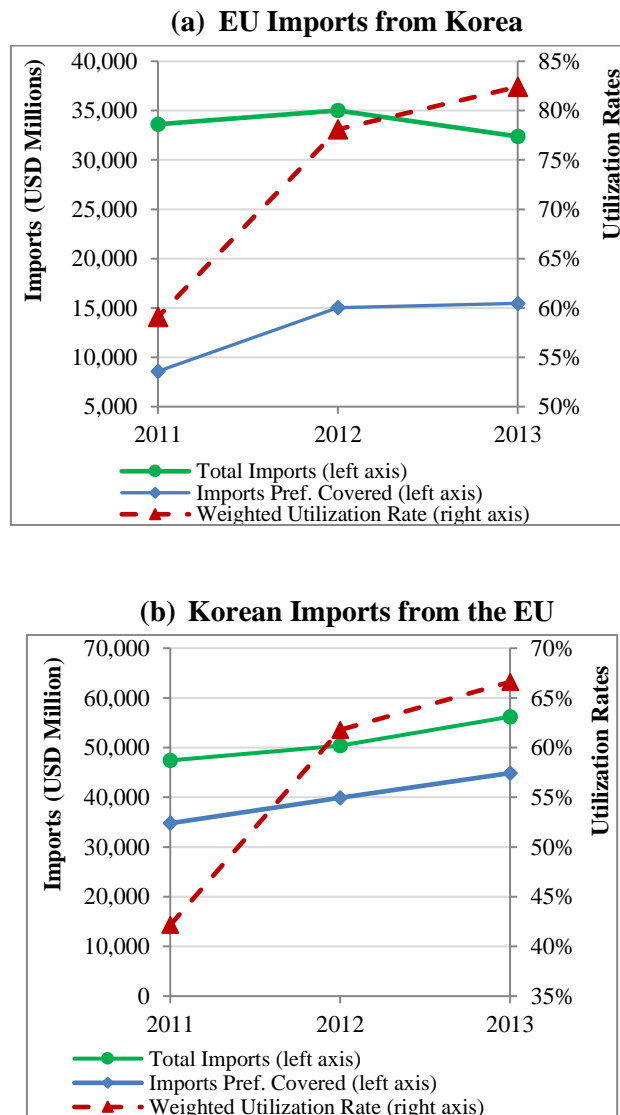
At more disaggregated level, it was shown that utilization rates vary substantially by direction of trade and partner, with substantial pockets of low utilization. The EU-South Korea FTA, the EU-Mexico FTA and the EU-Switzerland FTA, were objects of further analysis²⁶ given their relatively high asymmetry of utilization rates, their high values of trade and because they are representatives of different phases of evolution of EU rules of origin in the network of EU FTAs.

The EU-South Korea FTA is one of the first FTAs of the so-called ‘new generation’; the EU-Mexico FTA was first signed at the time of the Pan Euro Med rules of origin in mid 1990s and the EU-Switzerland FTA is one of the first FTA entered by the EU back in the 1970s.

²⁵ Presentation prepared by the authors and delivered delivered by the WTO LDC group at the Committee on rules of origin in October 2018.

²⁶ See for an initial analysis S. Inama « Rules of origin in international trade » forthcoming 2021, Cambridge University Press.

Figure 3 – EU-Korea FTA



As shown in Figure 3(a), between 2011 and 2013, EU covered imports from South Korea increased from 8.6 billion USD to 15.5 million USD and utilization rates rose from 59% to 82.4%. Over the same period, the corresponding utilization rates of South Korean imports from the EU followed a similar pattern with increasing utilization rates even though starting from a lower level of utilization and remaining significantly lower throughout the period, reaching 67% in 2013 (see Figure 3(b)).

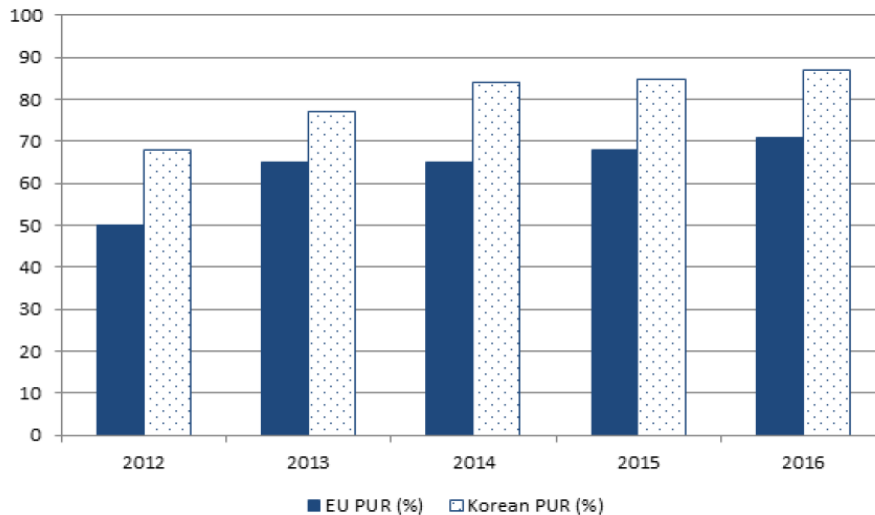
The asymmetrical evolution of the EU-South Korea FTA has been recognized during a comprehensive independent evaluation²⁷ carried out by a consulting company and a Commission staff working document²⁸ presenting its own evaluation as regards the findings and conclusions of the consultant company who carried out the evaluation.

²⁷ See IFO, *Evaluation of the Implementation of the Free Trade Agreement between the EU and its Member States and the Republic of Korea*. Interim Technical Report, and IFO, *Evaluation of the Implementation of the Free Trade Agreement between the EU and its Member States and the Republic of Korea*. Interim Technical Report Part 2: Stakeholder Consultation Report, 2017.

²⁸ Commission staff working document of the evaluation of Implementation of the Free Trade Agreement between the European Union and its Member States, of the one part, and the Republic of Korea, of the other part {SWD(2019) 103 final}.

As shown below, in Figure 4, the 2019 report of the Commission²⁹ acknowledges that even if the utilization rates of the EU exports have increased from 50% in 2012 to 71% in 2016, there is still a rather wide gap compared to the utilization rate of 86% of South Korean exports to the EU.

Figure 4 - Preference utilization rates in Korea and the EU (%)



Source: European Commission staff working document (2019)³⁰

The interim report of the consulting company³¹ indicated some reasons for such asymmetric utilization:

- a) low preferential margins associated to a cost/benefit analysis of using preferences
- b) South Korean Government promotion about using the FTA.

Besides these generic factors, the Mid Term review identified the following substantive reasons for such asymmetrical utilization:

- c) delays by EU customs authorities of delivering approved exporters status
- d) the direct consignment rules provisions contained in the EU-Korea FTAs
- e) non-compliance with product specific rules of origin.

In his working paper, the Commission, drawing from the consultant report, acknowledged that asymmetrical utilization rates was mainly due to burdensome customs procedures, namely:

- *“That the administrative burden related to the approved exporter status (AES) vary across Member States and can be time- and resource-consuming. Also, the exporters needed time to adapt”*. First, it should be noted that adaptation may take one year (i.e. 2012) but it is difficult to argue that exporters and customs still need adaptation after 4 years of practice. Moreover the AES has been in use for decades in the EU.

²⁹ Ibidem, footnote 29

³⁰ Evaluation of the Implementation of the Free Trade Agreement between the European Union and its Member States, of the one part, and the Republic of Korea, of the other part {SWD(2019) 103 final}

³¹ See IFO, *Evaluation of the Implementation of the Free Trade Agreement between the EU and its Member States and the Republic of Korea*. Interim Technical Report. and IFO, *Evaluation of the Implementation of the Free Trade Agreement between the EU and its Member States and the Republic of Korea*. Interim Technical Report Part 2: Stakeholder Consultation Report, 2017

- “the direct transport rule. It is considered to be burdensome for some industries who use regional hubs in Asia such as Singapore”. This issue is linked with the drafting of the provision on direct transport provision in the EU-South Korea FTA.

First it is not clear why the Commission deviated from its established practice when negotiating the text of the EU-South Korea FTA protocol as further explained below. Second it is also not clear why it has not been possible to come to an understanding with South Korea under the Joint Committee on Rules of origin to find a solution in the course of the years. Apparently South Korea requires large trade offs for changing this provision.

The Commission mentions in the working paper that a number of actions has been taken to improve the asymmetric situation, namely:

- a) developing relevant web tools to assist exporters
- b) raising the issue of direct transport on numerous occasions with the South Korean authorities to reach an FTA amendments package.

Yet it may be wondered how these measures have been timely and effective in addressing the stumbling blocks that have been clearly identified using utilization rates as a monitoring tool.

Finally, the assertion in the Commission working paper that the low utilization rates in the machinery, electronics and chemical sectors “*can be attributed to the complexity of the process to obtain proofs of origin for all the multiple product components as a result of the global value chain production*” reinforces the sentiment that the Commission may not have wholeheartedly accepted the use of utilization rates and related instruments as monitoring tool to identify and address area of reforms on rules of origin and related administrative procedures.

As pointed out earlier in a FTA such the EU-South Korea the rules of origin and customs procedures are the same. South Korea is also exporting goods of the machinery, electronics and chemical sector to the EU why then the utilization rates should be lower for the EU, why the complexity of proof of origin and sourcing should affect more the EU than South Korea? There are not definite answers to these questions except to double-check these assumption with EU companies.

Once again the most recent National board of Trade Sweden report dismisses such enduring myths by showing that SMEs and large companies tends to use more trade preferences according to the value of transactions rather than by sector specific constraints or sourcing requirement Another reason raised by the National Board of Trade Sweden is that the analysis of preference utilization should focus more on importers, since the importers are the ones that benefit directly from the duty savings or might face the risk of having to pay the duties if there is any error in the request. The importers are likely the drivers of preferences utilization³².

As outlined in the preceding section, a finding of low or asymmetrical utilization should be accompanied by a text base analysis of the FTA protocol on rules of origin and fact-finding meetings and discussion with private sector.

In the case of the EU-South Korea protocol on rules of origin there is a rather striking difference in the texts on direct transport provisions from other agreements that lies at the heart of the question. Like many other FTAs, the EU-South Korea Protocol on rules of origin states that products must be transported directly between the EU to South Korea, and vice versa, in order to benefit from the tariff preferences of the FTA. According to such provision, exporters must provide customs authorities in the destination country with evidence verifying that the direct transport provision has been satisfied. The

³² If seen from this perspective the preference utilization by EU importers is high (above 90 percent) and the preference utilization by partner country importers is low (about 67 percent). In order to increase the preference utilization of EU exporters, the focus should be to facilitate the trade for partner country importers and their contact with customs authorities and other relevant stakeholders in these countries.

usual article related to direct transport³³ contained in the EU FTAs provides that; “*Evidence that the conditions set out in paragraph 1 have been fulfilled shall be supplied to the customs authority, in accordance with the procedures applicable in the importing Party, by the production of:*

- (a) *evidence of the circumstances connected with transshipment or the storage of the originating products in third countries;*
- (b) *a single transport document covering the passage from the exporting Party through the country of transit; or*
- (c) *a certificate issued by the customs authorities of the country of transit:*
 - (i) *giving an exact description of the products;*
 - (ii) *stating the dates of unloading and reloading of the products and, where applicable, the names of the ships, or the other means of transport used; and*
 - (iii) *certifying the conditions under which the products remained in the country of transit.*
- (d) *any substantiating documents to the satisfaction of the customs authorities of importing country*

However paragraph 2 of article 13 titled direct transport of the EU-South Korea FTA does not contain the provision under (d), thus limiting the alternatives to provide documentary evidence for direct transport to a trough bill of lading as laid down in paragraph (b) above or what is normally defined a non manipulation certificate under (c).

These requirements of evidence of direct shipment are far from the best practices as recommended by WCO and presently discussed during the revision of Annex K on rules of origin of the Kyoto Convention. As resulted from interviews with private sectors and reported in various studies³⁴ and notes, firms are using hubs to split consignments³⁵, mainly in Singapore.

In fact, EU exporters make use of logistical hubs (mainly in Singapore) for storage and related operations, such as repackaging and labelling, prior to distributing their products to various Asian markets, including South Korea³⁶. Such repackaging and labelling in the country of transit (Singapore) disqualifies goods according to the rigid requirements of article 13 in the EU-South Korea protocol of origin mentioned above. Moreover, it has turned out, at interviews with the private sector, that the Korean Customs adopted a rather overzealous application of the protocol on rules of origin, including such provision.³⁷ In order to benefit from the preferential tariffs of the FTA, some companies have chosen to ship goods directly from the EU to South Korea. However, in these cases, companies cannot react swiftly to demand fluctuations, as shipping from the EU to South Korea can take well over a month³⁸. Discussions have taken place to address this challenge but no solution has been found.

Most recently, during the negotiations of the FTA with Japan, the Commission seems to have learned the lesson by 1) inserting the non alteration clause that is replacing the concept of direct transport requirement and 2) the introduction of the exporter/importer self certification without prior approval. The introduction of self certification by the importer is an innovative feature in EU FTAs that till recently used “approved exporters” as self certification mechanisms. Under the “approved exporters” system only exporters that were approved by EU national customs administration or partner country were allowed to self certification. The EU- Japan FTAs introduced novelties since according to article 3.16 of protocol on rules of origin of the EU-Japan FTA “*The importer shall be responsible for the correctness of the claim for preferential tariff treatment and compliance with the requirements provided for in this Chapter. 2. A claim for preferential tariff treatment shall be based on: (a) a statement on*

³³ See TAXUD website. This issue is further discussed in Inama, “Rules of origin in international trade, forthcoming 2021..

³⁴ See in addition to the IFO study mentioned above under footnote 2720 the “« Study on the use of FTA agreements” « by Ecorys carried out for the Dutch Ministry of Foreign Affairs, 2018

³⁵ See Note by Ernst and Young, Trade watch, 2013

³⁶ See IFO report, footnote 2720

³⁷ See for specific examples the Ecorys study above, footnote 3427

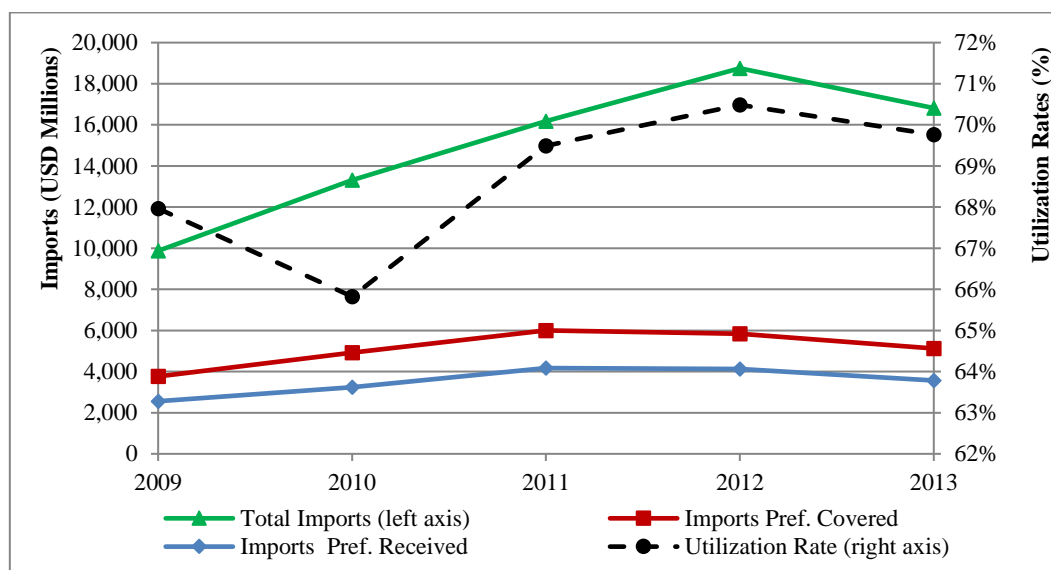
³⁸ See IFO report, footnote 2720

origin that the product is originating made out by the exporter; or (b) the importer's knowledge that the product is originating.

Such innovation seems to have encountered a series of initial implementation obstacles that generated a number of guidance notes from both parties: EU³⁹ and Japan⁴⁰.

Asymmetrical and low utilization have also been recorded in the case of the EU-Mexico FTA. In this case, the utilization rates are not only asymmetrical but also relatively low in both directions of trade, ranging between from 66% per cent to 70% per cent in the case of imports from Mexico into the EU, as shown in Figure 5, and from 48% per cent to 36% per cent in the case of EU imports into Mexico.

Figure 5 – European imports from Mexico and utilization rates



These low utilization rates are further analysed in section 3.3 below, where the application of the “repeated offenders” methodology detected numerous pockets of low utilization in the EU-Mexico FTA. In particular, the methodology identified the PSRO in the automotive sector in the EU-Mexico FTA as one the major culprits for low utilization. In fact, the original EU-Mexico FTA provided for stringent rules of origin in the automotive sector that have been liberalized in the course of the negotiations⁴¹ for the updating of EU-Mexico FTA. The PSRO for cars and other vehicles (HS headings 8701-8707) is now equal to 45% max NOM (Non-Originating Material). Therefore, for the entire automotive sector, the permanent product-specific rules of origin are the same as in the EU-Japan or EU-Korea FTA.

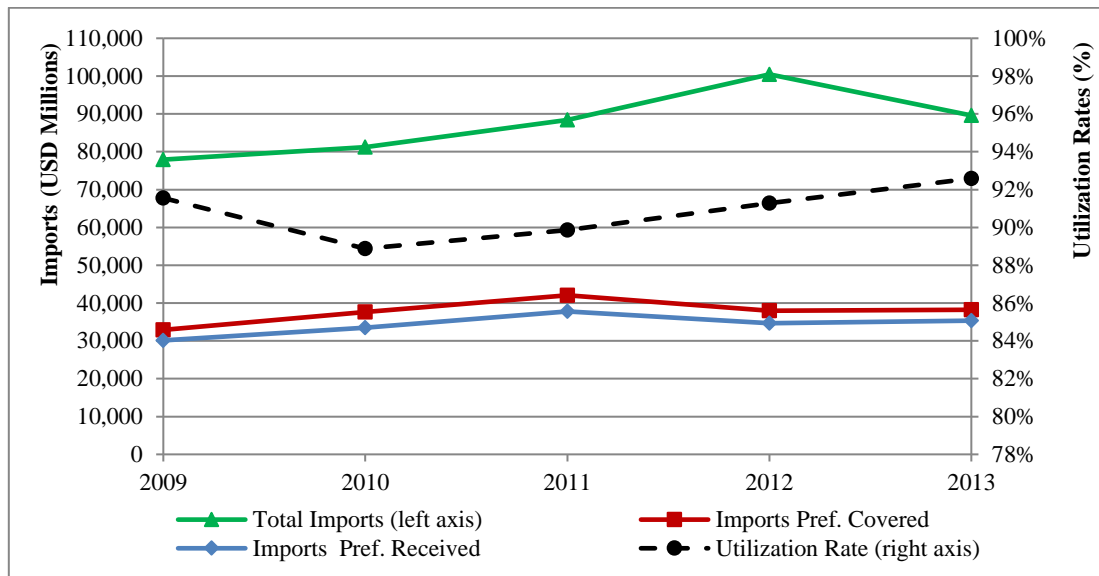
Figure 6 below, depicts a similar asymmetrical patten in the EU Switzerland FTA, raising a number of questions since such FTA is in existence since the 1970s and by any means should be a well- tested and widely known FTA for traders and the business community. Still, while the utilization rate is as high as 93 per cent for goods imported in the EU the corresponding utilization rates of Swiss imports from the EU is ranging from 73 per cent in 2011 with a lowering trend to 66 per cent in 2013.

³⁹ See https://ec.europa.eu/taxation_customs/sites/taxation/files/eu_japan_epa_guidance_claim_verification_denial_en.pdf

⁴⁰ <https://www.customs.go.jp/roo/english/text/eu-3-16e.htm>

⁴¹ See http://trade.ec.europa.eu/doclib/docs/2018/april/tradoc_156791.pdf

Figure 6 – European imports from Switzerland and utilization rates



As there has not been a similar study on the implementation of the EU-Switzerland FTA, it is not possible at the moment to identify the reasons for such asymmetrical low utilization. However, a submission by the LDC WTO group⁴² in the context of utilization rates of the Swiss GSP by LDCs found that the Swiss utilization rates for garments and clothing imports of HS Chapters 61 and 62 are ranging between zero and 49%, much lower than those observed in the EU that amount to 95% on average.

Given that EU and Swiss rules of origin for garments of chapters 61 and 62 are identical, the LDCs requested to clarify the reasons for such lower utilization rates in the Swiss market. In addition, it was also found that pearls and precious stones of HS Chapter 71 also showed extremely low utilization rates. Since these are primary products, normally considered as originating, they are mostly wholly obtained in the LDCs, it was difficult to find a reasonable explanation for low utilization. During bilateral meetings between Switzerland and the LDCs trade data was made available by the Swiss delegation to identify the reasons for such low utilization. The data provided by the Swiss delegation showed the utilization rates for direct imports, i.e. those that were imported directly into Switzerland, recorded very high utilization rates while indirect imports (mainly through the EU) showed significantly lower utilization rates. These findings points to the direct shipment in the EU-FTA⁴³ and present in the Swiss GSP as possible culprit for such low utilization, taking into account that Switzerland is a landlocked country where most of goods are transiting third countries before reaching the final destination. This preliminary finding is an useful indicator of a “malaise” or improper functioning of these preferential trading arrangements that would need to be tested in counterfactuals with firms and traders.

3. A methodology to identify the link between product specific rules of origin and low utilization of trade preferences

The previous section has shown evidence that a reading of the trends of utilization rates in conjunction with counterfactuals from the private sector can track the reasons for low utilization rates and lead to a solution whenever trade policymakers recognize the problem and take swift action.

⁴² See WTO document G/RO/W/186 8 May 2019

⁴³ In reality, the rules of origin contained in the PEM Convention are applicable and this convention applies direct shipment rules and evidence of documentary evidence are similar to the EU-South Korea FTA.

The repeated offender methodology is a tool aiming at identifying those product-specific rules of origin and/or administrative related procedures that are responsible for pockets of low utilization in FTAs, and therefore where reform of PSRO may have significant trade effects.

This section conveys a strong policy message that, similarly to the EBA and Canadian GSP case⁴⁴, reforms of rules of origin in EU FTAs could generate strong market responses for the EU exporters and importers, as well as FTA partners.

To do so, specific methodologies based on utilization rates and input/output matrices can be applied in order to (1) identify the PSRO where a reform would be the most beneficial and (2) which type of PSRO should be adopted to replace those product-specific rules of origin that are found to be causing low utilization

3.1 The “Repeated Offenders” Methodology

The *repeated offender methodology* is a tool aiming at identifying the product-specific rules of origin or administrative related procedures that are responsible for pockets of low utilization in FTAs, and therefore where reform of PSRO may have significant trade effects.

While the preceding sections have documented and discussed the magnitude of the trade flows affected by low utilization, the *repeated offenders methodology* applied in this section to the existing trade data and utilization rates of EU-FTAs, makes it possible to systematically identify the sectors at HS 4-digit level in which PSRO may be causing low utilization of trade preferences. The methodology comprises five steps divided into two parts, as reported below.

Part A: Identifying low utilization at product specific level (HS 4 digits⁴⁵)

1. Filtering the data to identify “critical products”

- a. The data are filtered to keep observations referred to as “critical products” showing a low utilization rate (UR) and high preference margin (PM) at the HS 4 digit-level, on average⁴⁶. The thresholds applied in the present paper are $UR < 70\%$ and $PM > 2pp$.
- b. After the filtering described in (a) above, observations are ranked in descending order of covered imports for each specific agreement and separately for each directions of trade (EU exports and EU imports). Rank 1, 2, 3, etc. respectively refer to the first, second, third, etc. most exported or imported *critical product* between the European Union and a specific FTA partner.
- c. The analysis focuses on the R products at the top of the critical products ranking ($Rank \leq R$)⁴⁷. These products considered after the filtering of (a) and the selection made under (b) are referred to as “Critical Products at rank R ”.

The reasoning behind the filtering under (a) is twofold:

⁴⁴ See Getting to better rules of origin for Least Developed Countries, forthcoming, UNCTAD, 2020

⁴⁵ Such level of disaggregation is explained by the fact that most of PSRO of the EU-FTAs are set at HS 4 digit level.

⁴⁶ The panel dataset is aggregated to a cross-session by averaging imports and preference margin over all available years for a given product and partner. See Technical Appendix available on request from the authors.

⁴⁷ Alternatively, the authors considered the application of trade shares thresholds. Given the various level of export/import diversification across EU FTA partners and the high degree of specialization of some economies, such criterion is difficult to apply in practice. As an illustration, while 900 critical products are identified at rank 50 in EU imports (50 for each 18 FTA), restricting the cumulative import shares up to a maximum of 2% results in 1189 critical products, distributed highly unevenly over 8 countries: Egypt (270), Island (375), Korea (1), Morocco (3), Peru (240), Serbia (4), Tunisia (203) and Turkey (93). For all other FTAs, the most exported products to the EU represent a share in EU imports from that partner higher than the threshold of 2%. A criterion independent from export/import diversification is therefore more appropriate to account for all economies and avoid excluding crucial critical products from the analysis.

- (i) to capture a significant size of non-optimal utilization with trade values that are not too low to be of a sporadic nature, and
- (ii) a margin of 2pp could be considered significant taking into account that preferential margin of 2,5pp on motor vehicles in the US market has generated around 100 pages of rules of origin text in NAFTA and even more in USMCA, still commanding headline in the press at this very days.⁴⁸

2. Identification of “repeated offenders”

Broadly speaking, the concept of the repeated offenders are products that have been identified as reporting a consistently low utilization rates across various FTAs or within an FTA in both directions of trade and with significant trade values in terms of covered imports. Following the terminology defined in step 1, two types of repeated offenders have been singled out:

- a. **Bilateral repeated offenders (BROf):** *critical products* at rank R_B in both directions of trade (EU exports and EU imports) within a given agreement.
- b. **Repeated offenders across agreements (AROf):** *critical products* at rank R_A in one direction of trade, across a number N_A of FTA partners.

The advantage of this methodology is to avoid considering isolated cases, for which the low utilization rate might result from various exogenous factors. Instead, with *Bilateral Repeated Offenders*, the products are critical, not only for the exports of an FTA partner to the EU or for the EU exports to that given partner, but for both parties at the same time.

Across-Agreements Repeated Offenders refers either to the critical products among the top R_{AI} most imported products to the EU from at least N_{AI} (>1) FTA partners, or to the top R_{AX} most exported products from the EU to at least N_{AE} (>1) destination markets. The value of the parameters applied in this study are given in section 3.2.

Part B: Identify PSRO for reform: Linking “critical products” and “repeated offenders” to PSRO of FTAs

The second part of the methodology matches the critical products and repeated offenders that have been identified to their respective PSRO

3. Matching critical products with PSRO

From step (1) above, critical products can be matched with PSRO. This step only constitutes a preliminary analysis as a transition to the application of the repeated offenders’ stricter criteria.

4. Matching bilateral repeated offenders with PSRO

Within a given FTA, PSRO are identical in both directions of trade. Therefore, a product that is critical for EU exports to the partner country AND for the partner’s exports to the EU may be the sign of inadequate PSRO within the agreement. Therefore, it is crucial to match the bilateral repeated offenders with their respective PSRO. This makes it possible to examine these rules and understand what are the underlying reasons for low utilization in order to make recommendations for reform.

⁴⁸ See for instance *The Impact of Rules of Origin on Supply Chains USMCA’s Auto Rules as a Case Study*, A Report of the CSIS Scholl Chair in International Business by William Alan Reinsch Jack Caporal Madeleine Waddoups, Nadir Tekarli, April 2019

5. Matching bilateral & cross-agreements repeated offenders with PSRO as priority candidates for reform

This step consists in identifying the critical products that are included in both bilateral and cross-agreements repeated offenders (for EU imports, EU exports and for both), and then to match them to the PSRO of each concerned FTAs.

Although PSRO are not identical across agreements, some similarities can be observed. Therefore, critical products that are bilateral repeated offenders in several agreements might be good **candidate for reform**, requiring to match and analyze the PSRO of these two dimensional (bilateral and cross-agreements) repeated offenders.

Box 1 – “Repeated offenders” methodology Bilateral vs. across agreements at EU exports and imports

Looking jointly at AROf in both directions of trade, EU exports and imports makes it possible to identify the sectors that are critical for EU exports to several FTA partners and at the same time for EU imports from several FTA partners. In contrast to bilateral repeated offenders, this approach does not require the sectors to be critical at the bilateral level. In other words, the FTA partners to which EU export the critical product and those from where sourcing takes place are not necessarily the same. This is particularly important when looking at sectors that are not exported and imported at the same time in large amounts to/from a given FTA partner, for structural or cyclical reasons.

In the present paper, only HS2710 is excluded from the bilateral analysis. However, when significant differences are observed between products identified with or without bilateral restrictions, an additional step could be added to the methodology before jointly merging AROf and BROf to PSRO. This would allow to analyze and compare the PSRO of the “repeated offender” sector in each AROf agreement, and attempt to identify possible specific common feature leading to low utilization, such as stringent restrictiveness or unnecessary administrative burden.

Critical products identified as repeated offenders across agreements on EU exports and/or EU imports could be matched with their respective PSRO without the bilateral restriction. As PSROs may vary across agreements, this would require a comparison across all the agreements where the product is considered as critical. Alternatively, a preliminary analysis can be conducted based on the agreement(s) showing the lowest rank (i.e. for which the critical product is among the top most imported/exported critical product).

Annexes 1 and 2 contain diagrams showings for each FTA examined the results of such filtering in both directions of trade.

3.2 Data

The analysis is using the National Board of Trade Sweden/UNCTAD dataset composed of 17 FTAs (see section 0), with the following exceptions:

- EU exports
 - Exclusion of Bosnia and Hercegovina, Chile, Lebanon and Tunisia as reporting countries, given the unavailability of data at the HS 4-digit level of disaggregation.
 - Inclusion of Croatia and Norway as reporting countries.
- EU imports

- Exclusion of Nicaragua as EU sourcing, given the unavailability of FTA duty rate to compute the preference margin.

As a result, 14 reporting FTA (EU export destinations) and 18 EU sourcing countries are considered in the analysis. The panel dataset is first averaged over the available years. The analysis is therefore applied to the resulting cross section of countries and tariff headings. The detailed dataset is described in the technical appendix.

In this analysis, the parameters are set as follows:

$R_B = 30$: Bilateral repeated offenders are defined as critical products that are critical and lie among the top 30 critical products in terms of covered imports in both direction of trade within a given agreement.

$R_{AI} = R_{AX} = 10$; $N_{AI} = N_{AX} = 2$: Across agreements repeated offenders are defined as the products that lie among the top 10 most exported (resp. imported) critical products to (from) at least two FTA destination (sourcing) countries.

Threshold for critical products are applied as previously defined, utilization rates below 70% and preference margin above 2pp.

3.3 Overview of the results

3.3.1 Identification of “critical products”

Table 2 – EU Critical Trade - Overview

EU covered exports of critical products							EU covered imports of critical products						
FTA	Value (\$000)	CR. Share	# HS4	WUR	UR	PM	FTA	Value (\$000)	CR Share	# HS4	WUR	UR	PM
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
KOR	29'418'127	73.9	664	49.9	46.0	8.8	DZA	511'527	25.5	314	58.3	4.9	5.9
MAR	13'306'251	70.4	765	35.1	43.1	13.9	MEX	1'228'512	23.9	455	27.0	17.3	5.4
MEX	12'924'580	55.2	390	34.5	37.8	9.8	KOR	1'502'029	19.2	479	51.1	29.7	5.7
EGY	6'964'578	50.7	495	33.2	38.7	5.6	LBN	21'774	14.4	365	40.5	13.4	5.6
DZA	3'654'381	36.2	504	36.7	39.8	11.7	MNE	15'126	10.4	252	50.7	3.7	5.9
MKD	688'458	30.3	254	47.1	41.8	10.0	CHE	3'784'038	10.0	55	48.1	47.1	6.5
NIC	19'730	26.2	173	8.8	1.5	4.0	CHL	239'102	9.1	418	44.8	8.6	5.6
ALB	238'972	16.4	162	30.4	46.3	10.9	ALB	35'008	8.9	288	18.3	12.2	5.5
MNE	100'221	13.1	399	45.8	39.1	6.4	NOR	34'927	8.9	283	18.3	12.3	5.1
HRV	840'226	12.3	222	44.6	38.7	8.7	BIH	74'161	5.5	284	48.8	16.0	5.4
CHE	10'316'073	11.0	196	45.9	41.1	13.9	MKD	50'341	5.4	293	10.7	14.3	4.9
TUR	5'557'973	10.2	30	61.2	57.5	8.1	SER	91'929	3.5	316	36.2	20.6	5.1
SER	610'355	9.2	238	46.2	44.6	6.9	MAR	173'733	2.7	273	55.8	19.5	5.3
ISL	28'160	5.5	59	59.6	50.9	8.3	TUR	755'387	2.0	93	58.8	43.0	5.0
							PER	18'974	1.7	240	42.6	15.0	5.3
							TUN	102'348	1.7	203	55.0	21.4	5.1
							ISL	26'726	1.3	375	47.3	14.9	5.6
							EGY	28'664	0.9	270	35.5	15.0	4.9

Note: Critical trade – imports and exports with weighted utilization rate below 70% and preference margin above 2 percentage points

Table 2 provides an overview of EU critical trade. Column (2) indicates the value imports of tariff headings covered by the FTA exhibiting a preference margin above 2 percentage points and a weighted utilization rate lower than 70% while column (3) reports the corresponding share out of the total covered imports independently of the utilization rates or preference margin rates.

The most striking evidence is that the share of critical products is systematically higher for EU exports than for EU imports. Out of the total Korean imports from the European Union that are covered by the FTA, 73.9% has been found critical, showing low utilization, 50% on average (see column 5) and

a preference margin above 2pp. In contrast, with a similar utilization rate of 51%, the share of critical trade amounts only to 25.5% when considering EU imports from South Korea. Therefore, to correctly characterise this finding utilization rates are not asymmetrical but the amounts traded on the critical tariff headings are. Such findings can be interpreted in two ways, both of them pointing towards a fixed cost in utilizing the trade preferences, in line with earlier discussion on the administrative procedures related to rules of origin discussed in section 0:

- (i) Asymmetry in utilization rates is observed only for relatively high values of utilization rates. Therefore, conditional on reaching high utilization above 70%, EU exporters face more difficulties than foreign exporters to raise utilization to higher values. This “residual non-utilization” of the preference, or “utilization rate ceiling” lower than 100% could be due to fixed costs and administrative procedures preventing exporters to use the preference despite the massive potential gain resulting from the massive amount trade on these critical tariff lines. The answer may also be found on the importer side, since importers seem to be the drivers for preference utilization.
- (ii) The utilization rates are asymmetric only when the preference margin is relatively low. Therefore, the similar efforts are placed by exporters in both direction of trade to utilize the preference when the preference margin is commercially meaningful, independently of the traded amount. However, considering potential economies of scale, higher trade values are expected to translate into higher utilization rate as the marginal cost related to the use of the trade preference decreases. Since we do not observe such pattern, but in contrast, utilization rates that are independent of trade values, the findings point towards fixed costs, possibly resulting from administrative requirements related to rules of origin.

In the case of the EU-Switzerland agreement, the asymmetric utilization rates discussed in section 0 and reported in Table 1 amount to 72% on EU exports and 91% on EU imports. Because figures in Table 2 capture exclusively critical trade with utilization rates below 70%, only 196 tariff headings are considered for EU exports and 55 for EU imports (see column (4)), leading to lower shares of critical trade of respectively 11% and 10% for EU covered exports/imports to/from Switzerland, and to utilization rates of 45% (EU exports) and 48% (EU imports). It is worth noting that this similar magnitude of critical exports/imports shares and of utilization rates does not necessarily rule out asymmetries at the HS heading level.

Indeed, if Table 2 provides an interesting preliminary overview of the potential asymmetries within FTAs and of the variability of critical trade shares between FTAs, a more disaggregated analysis is needed to study the major source of heterogeneity related to the product characteristics. Table 3 therefore reports the EU's most exported critical products to FTA partners, exhibiting utilization rate below 70% and a preference margin above 2pp. Columns (1) and (2) report the product HS 4-digit code and its corresponding description while column (3) indicates the name (ISO 3 code) of the considered FTA partner. The utilization rate in column (4), preference margin in (5) and the value of covered imports in (6) all refer to imports from the European Union to the FTA partner reported in column (3). Filters to identify the critical products are applied in columns (4) for utilization rates and in column (5) for preference margin. Results are reported in descending order of the FTA partners' covered imports of column (6)⁴⁹. For completeness and comparison purpose, column (7) and (8), report the corresponding non-filtered utilization rates and preference margin in the other direction of trade, from the FTA partner reported under (3) to the EU, with the amount of covered imports in column (9).

Preliminary observations can be drawn from Table 3. First, most of the critical products are petroleum oils, cars and parts thereof, and machinery of chapter 84. Second, beyond this sectoral concentration, FTA partners importing significant amounts of such products from the EU are mostly Mexico, Korea, Egypt, Switzerland and Morocco.

⁴⁹ The paper reports only values above 450 million of Partner's imports and 35 million of EU imports for readability reason.

It has to be noted that the preponderant volume of trade not fully utilizing trade preferences under HS Chapter 27, petroleum oils and derivatives, are often imposed MFN duties between 3 and 4pp. Given the high values of trade, this represents a tremendous amount of potential duty savings. As an illustration, with a utilization rate of 62% and an average preference margin of 3.4pp, the amount of MFN duty paid on the 4.2 billion exports of products of HS 2710 to Turkey can be evaluated at 55 million USD⁵⁰ is often imposed an MFN duty of 2.5 % in the EU. The second most exported critical products are cars and parts of cars that are attracting a high average of MFN rates in Mexico.

Table 3 – EU Most Exported “critical products” to FTAs Partners

Critical Product		FTA	Exports to FTA			Imports from FTA		
HS 4	Description	ISO3	UR (%)	PM (pp)	Covered (\$000)	UR (%)	PM (pp)	Covered (\$000)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2710	Petroleum oils, etc, (excl. crude); prep. thereof, nes	TUR	62.0	3.4	4'234'142	90.0	2.5	158'962
8703	Motor cars and other motor vehicles principally designed passengers	KOR	59.2	5.8	3'257'273	86.0	5.2	1'595'926
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05	MEX	9.7	2.6	1'913'190	48.1	3.8	198'000
2709	Petroleum oils and oils obtained from bituminous minerals, crude	KOR	61.8	3.0	1'848'504		0.0	0
2710	Petroleum oils, etc, (excl. crude); prep. thereof, nes	EGY	6.5	4.1	1'721'150	83.5	2.5	106'154
3004	Medicaments of mixed/unmixed products	KOR	38.1	7.4	1'476'336		0.0	0
8703	Motor cars and other motor vehicles principally designed passengers	MEX	43.9	34.3	1'098'697	93.7	9.8	1'972'232
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05	KOR	60.4	8.0	1'014'729	83.2	3.8	692'849
8486	Machines and apparatus for the manufacture of semiconductor	KOR	64.4	3.3	982'070	29.0	0.4	318
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05	CHE	65.5	4.7	952'469	94.8	3.8	493'679
8479	Machines, mechanical appliances having individual functions etc.	KOR	50.4	6.9	912'086	51.1	1.4	41'696
4202	Trunks, suit-cases; handbags of leather	KOR	23.7	7.3	863'917	19.6	3.7	30'391
8481	Tapes, valves, for pipes pressure reducing, thermostatically controlled valve	KOR	43.6	4.8	813'883	47.6	2.2	44'898
3004	Medicaments of mixed/unmixed products	MEX	69.4	5.9	698'982		0.0	0
8414	Air or vacuum pumps, exhausting and compression fans with/without filters	KOR	55.4	6.9	695'948	74.7	1.3	67'928
8413	Pumps for liquids, with or without measuring device; liquid elevators	KOR	61.4	6.9	682'808	57.6	1.0	25'043
8483	Transmission shafts, cranks, clutches, saht couplings(universal joints)	KOR	46.9	5.7	664'207	69.2	2.0	45'659
2711	Petroleum gases and other gaseous hydrocarbons	MAR	38.2	2.8	663'254	100	0.7	17
8443	Printing machinery, including ink-jet printing machines	CHE	49.6	4.3	601'489	96.9	1.5	195'775
8544	Insulated wire, cable, other insulated electric conductors; optical cables...	MAR	11.2	23.4	543'430	99.3	2.9	796'360

⁵⁰ The FTA rate being zero on HS2710, the MFN rate is equal to the preference margin leading to the following calculation of duty savings: $(1-0.62) \times 4'234'142 \times 0.034$.

1001	Wheat and meslin	MAR	35.4	54.1	513'203		1.0	0
6204	Women's or girls' suits, ensembles, jackets, dresses, skirts, etc	CHE	42.1	16.2	497'260	78.9	12.0	72'398
0203	Meat of swine, fresh, chilled or frozen	KOR	64.1	9.9	488'868	0.0	0.0	375
6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, etc	CHE	61.3	12.7	462'048	94.9	12.0	146'466
4202	Trunks, suit-cases; handbags of leather	CHE	62.5	5.8	456'789	98.7	4.5	393'429
3824	Prepared binders; chemical products, nes; residual products, nes	CHE	35.8	3.5	453'979	89.9	5.3	136'637

Notes: Critical products filters: Column (4) UR<70%, Column (5) PM>2pp; Data sorted in descending order of FTA partner covered imports of column (6); nes. stands for “not elsewhere specified”; Only critical products with FTA covered imports above USD 450 million are reported.

Table 4 provides a similar snapshot in the reverse side of trade i.e. EU imports from partner countries with data sorted in descending order of covered imports (6). The results mirrors to a certain extent the findings of the previous table in the sense that there is a relatively high concentration of products and FTA partners that are recording low utilization. Chemicals and Switzerland appears to be country-product pairs showing substantial volumes of trade and suffering from low utilization. Cars and parts of motor vehicles also feature low utilization in this direction of trade from the same partners, mostly Mexico and Switzerland. Besides these specific products, it has to be noted a great variety of products and partners recording a low utilization rates.

Table 4 – EU most imported products from FTA partners

Critical Product		FTA	Imports from FTA			Exports to FTA		
HS4	Description	ISO3	UR (%)	PM (pp)	Covered (\$000)	UR (%)	PM (pp)	Covered (\$000)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2933	Heterocyclic compounds with nitrogen hetero-atom(s) only; nucleic acids	CHE	43.4	4.7	1'695'586	44.3	0.5	1'875'429
2924	Carboxamide-function; amide-function compounds of carbonic acid	CHE	61.7	4.8	982'769	72.3	0.7	39'479
2934	Other heterocyclic compounds	CHE	32.9	4.9	573'394	37.8	0.0	81'579
0802	Other nuts, fresh or dried, nes.	TUR	60.6	2.1	518'687			0
2710	Petroleum oils, etc, (excl. crude); preparations, nes.	DZA	58.9	2.5	502'340	62.0	0.9	302'424
2922	Oxygen-function amino-compounds	CHE	44.0	5.2	228'360	57.8	0.5	110'137
0808	Apples, pears and quinces, fresh	CHL	46.8	2.9	217'903			
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05	MEX	48.1	3.8	198'000	9.7	2.6	1'913'190
8536	Electrical apparatus for making connections,	MEX	24.6	2.1	108'875	17.2	1.9	525'130
8529	Accessory parts for apparatus in heading 85.25-85.28	KOR	41.2	3.2	105'832	26.3	6.6	69'883
1605	Crustaceans, molluscs and other aquatic invertebrates, prepared or preserved.	MAR	67.1	18.6	104'776	40.2	5.0	754
8207	Interchangeable hand tools, whether not power operated, rock drilling etc.	KOR	68.1	2.7	100'837	82.1	7.6	61'087
8703	Motor cars and other motor vehicles principally designed passengers	CHE	66.4	9.8	88'820	92.4	0.9	8'726'786
3907	Polyethers and epoxide resins; polyesters	TUR	48.9	5.5	84'049	80.0	5.6	527'532
8537	Boards, panels, consoles, desks etc. other than switching apparatus	MEX	14.4	2.1	66'457	37.4	4.9	179'037
8701	Tractors (other than of heading 87.09)	TUR	56.7	3.8	61'123	99.7	3.7	222'358
9405	Lamps, lighting fittings, nes. incl. parts	KOR	44.3	3.0	60'289	41.4	8.0	64'916
2921	Amine-function compounds	CHE	67.2	5.3	60'251	87.9	0.5	156'135

3926	Other articles of plastics, nes	KOR	55.1	5.2	55'042	49.7	6.2	80'988
8544	Insulated wire, cable, other insulated electric conductors; optical cables...	MEX	8.1	2.9	54'858	26.5	5.5	225'626
8506	Primary cells and primary batteries	CHE	64.8	4.5	46'305	70.0	3.4	53'379
8483	Transmission hafts, cranks, clutches, shaft couplings (universal joints)	KOR	69.2	2.0	45'659	46.9	5.7	664'207
8504	Electrical transformers, static converters and inductors	KOR	54.4	2.1	45'409	43.2	5.9	280'724
8481	Tapes, valves, for pipes pressure reducing, thermostatically controlled valve	KOR	47.6	2.2	44'898	43.6	4.8	813'883
8543	Electrical machines, apparatus with one functions not specified elsewhere	KOR	57.5	3.3	44'608	56.1	5.7	104'514
8527	Reception apparatus for radio-telephony, reproducing apparatus or a clock	KOR	68.5	10.2	42'990	2.8	8.0	22'003
7326	Other articles of iron or steel	KOR	66.4	2.6	41'964	19.2	8.0	343'266
8536	Electrical apparatus for making connections, voltage not >1,000 volts	KOR	55.1	2.1	41'426	48.9	5.4	180'270
8408	Compression-ignition, combustion piston engins (diesel/semi-diesel engins)	MEX	33.1	2.3	41'356	3.8	3.6	313'512

Notes: Critical products filters: Column (4) $UR < 70\%$, Column (5) $PM > 2pp$; Data sorted in descending order of FTA partner covered imports of column (6); nes. stands for "not elsewhere specified"; Only critical products with EU covered imports above USD 35 million are reported.

3.3.2 Repeated offenders

Bilateral repeated offenders

Table 5 reports the bilateral repeated offenders for each FTA, namely the critical products with $UR < 70\%$, $PM > 2pp$ lying among the top 30 products in terms of covered imports for both EU imports and partner country imports. Observations for each FTA are sorted in descending order of total covered trade (EU imports and partner country imports) reported in column (4). The latter corresponds to the sum of column (8) and (11).

The table further strengthens the previous findings pointing to a number of products and FTAs that have appeared in both Table 3 and Table 4, with high trade values, such as Switzerland for motorcycles, bicycles and selected garments, South Korea for a variety of HS headings, Mexico and Turkey, etc.

Looking only at products with covered imports above 80 million USD, which represent twenty-four products of the fifty-seven reported in Table 5, there is a rather concentrated pattern of FTAs that are routinely encountering problems with different products like Mexico (9 products out of twenty-four) or South Korea (seven products out of twenty-four). With trade above 200 000 million, sixteen products remain in the list of bilateral repeated offenders, seven for each EU-Mexico FTA and South Korea FTA, one for EU-Egypt FTA and one for EU-Switzerland FTA (see rows highlighted in green in Table 5 below).

Table 5 – Bilateral repeated offenders sorted in descending order of total covered trade (EU & partner imports, thousands of USD)

FTA	HS code	Product Description	Total Trade		EU imports		Partner imports			
			Cov. (\$000)	Rec. (\$000)	UR (%)	PM (pp)	Cov. (\$000)	UR (%)	PM (pp)	Cov. (\$000)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
ALB	8528	Television receivers	21'466	823	0.0	8.9	16'182	15.6	4.3	5'284
ALB	6217	Other made up clothing accessories	10'363	1'647	4.1	8.2	4'780	26.0	9.0	5'583
ALB	3926	Other articles of plastics, nes	7'392	4'723	35.4	5.2	871	67.7	5.7	6'521
ALB	8716	Traillers; other vehicles, not mechanically propelled; parts	4'590	1'446	10.2	2.4	75	31.9	2.4	4'515
CHE	8711	Motorcycles, motor fitted cycles	202'331	121'725	65.1	6.9	3'361	60.1	2.1	198'970
CHE	8712	Bicycles, not motorised	98'040	11'592	63.8	14.7	1'128	11.2	10.0	96'912
DZA	8704	Motor vehicles for the transport of goods	140'674	32'331	0.0	13.5	105	23.0	2.6	140'569
DZA	8504	Electrical transformers, static converters and inductors	71'556	29'783	5.9	2.1	748	42.0	2.2	70'808
DZA	8481	Tapes, valves, for pipes pressure reducing, thermostatically controlled valve	61'146	18'919	21.5	2.2	385	31.0	8.0	60'761
DZA	8705	Special purpose motor vehicles; not for persons or goods	54'837	19'638	0.0	3.7	287	36.0	2.5	54'550
DZA	8708	Parts and accessories of motor vehicles of headings 87.01 to 87.05	46'837	27'544	0.8	3.8	155	59.0	12.2	46'682
DZA	8537	Boards, panels, consoles, desks etc.	45'142	10'721	0.1	2.1	475	24.0	7.0	44'667
EGY	8703	Motor cars/vehicles principally designed passengers	337'202	140'482	37.7	9.8	2'003	41.7	10.7	335'199
EGY	7307	Tubes or pipe fittings, iron or steel	105'420	19'638	64.8	3.5	566	18.4	5.8	104'854
EGY	8705	Special purpose motor vehicles; not for persons or goods	59'725	21'757	0.0	3.7	307	36.6	12.2	59'418
EGY	3811	Anti-knock preparations, oxidation inhibitors, to use as mineral oils	49'611	32'705	0.3	5.7	214	66.2	4.0	49'397
ISL	8529	Accessory parts for the apparatus in heading 85.25 to 85.28	655	361	22.0	3.2	61	58.6	3.8	593
ISL	6309	Worn clothing and worn articles	639	2	0.5	5.3	376	0.0	10.0	263
ISL	9507	Fishing rods & nets	296	129	50.3	3.3	106	40.0	6.8	190
KOR	4202	Trunks, suit-cases; handbags of leather, etc	894'308	210'866	19.6	3.7	30'391	23.7	7.3	863'917
KOR	8481	Tapes, valves, for pipes pressure reducing, thermostatically controlled valve	858'780	376'402	47.6	2.2	44'898	43.6	4.8	813'883
KOR	8483	Transmission shafts, cranks, clutches, shaft couplings(universal joints)	709'866	343'356	69.2	2.0	45'659	46.9	5.7	664'207
KOR	7326	Other articles of iron or steel	385'230	93'930	66.4	2.6	41'964	19.2	8.0	343'266
KOR	8501	Electric motors and generators	355'520	178'988	59.0	2.1	37'766	49.3	7.3	317'755
KOR	8504	Electrical transformers, static converters and inductors	326'133	146'033	54.4	2.1	45'409	43.2	5.9	280'724
KOR	8482	Ball or roller bearings	305'892	166'891	51.7	4.0	38'917	55.0	5.3	266'974
MAR	6006	Knitted or crocheted fabrics, other than of headings 60.01- 60.04	195'930	6'066	60.3	8.0	3'639	2.0	13.4	192'290
MAR	5208	Woven fabrics of cotton, with >=85% cotton, but <200g/m2	142'670	20'952	45.1	8.0	1'014	14.5	9.5	141'656
MAR	8408	Compression-ignition, combustion piston engines	116'889	27'307	11.4	2.3	585	23.4	8.2	116'304

FTA	HS code	Product Description	Total Trade		EU imports		Partner imports			
			Cov. (\$000)	Rec. (\$000)	UR (%)	PM (pp)	Cov. (\$000)	UR (%)	PM (pp)	Cov. (\$000)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
MEX	8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05	2'111'191	281'431	48.1	3.8	198'000	9.7	2.6	1'913'190
MEX	8408	Compression-ignition, combustion piston engines	354'868	25'654	33.1	2.3	41'356	3.8	3.6	313'512
MEX	8481	Tapes, valves, for pipes pressure reducing	343'987	131'656	17.3	2.2	32'539	40.5	2.6	311'448
MEX	3926	Other articles of plastics, nes	286'569	47'865	31.8	5.2	33'371	14.7	8.9	253'198
MEX	8544	Insulated wire, cable, other insulated electric conductors;...	280'483	64'329	8.1	2.9	54'858	26.5	5.5	225'626
MEX	8537	Boards, panels, consoles, desks etc.. other than switching apparatus	245'495	76'546	14.4	2.1	66'457	37.4	4.9	179'037
MEX	8501	Electric motors and generators	200'661	69'372	47.1	2.1	28'768	32.5	4.5	171'894
MEX	8504	Electrical transformers, static converters and inductors	125'707	45'732	15.5	2.1	15'714	39.4	2.8	109'994
MKD	5208	Woven fabrics of cotton, with >=85% cotton, but <200g/m2	44'267	18'690	64.2	8.0	133	42.2	9.5	44'134
MKD	4107	Leather of other animals, without hair on	25'686	14'221	27.9	6.4	272	55.7	12.5	25'414
MKD	5209	Woven fabrics of cotton, with >=85% cotton, >=200g/m2	21'908	8'859	44.9	8.0	124	40.4	10.1	21'784
MKD	5210	Woven cotton fabrics with man-made fibres, <85% cotton, =<200g/m2	8'015	3'149	69.2	8.0	65	39.0	9.5	7'950
MNE	8483	Transmission shafts, cranks, clutches, sahfht couplings	4'174	1'870	43.5	2.1	3'335	49.9	5.4	839
MNE	6204	Women's or girls' suits, ensembles, jackets, dresses, skirts, etc	3'678	1'562	0.3	12.0	20	42.7	10.0	3'659
MNE	7610	Aluminium structures, for structural use	1'694	1'097	13.1	6.3	19	65.4	8.7	1'675
MNE	6109	T-shirts, singlets and other vests, knitted or crocheted	1'342	753	63.0	12.0	67	55.8	10.0	1'275
MNE	2101	Extracts, essences and concentrates, of coffee, tea or maté.	1'136	560	0.0	9.7	31	50.7	15.3	1'105
MNE	8427	Fork-lift trucks, other trucks fitters with lifting or handling equipment	895	476	0.0	4.3	27	54.8	5.0	868
SER	3808	Insecticides, rodenticides... and similar products, for retail sale	50'533	29'357	8.6	6.0	1'307	59.4	3.5	49'226
SER	8528	Television receivers	38'551	476	0.0	8.9	16'103	2.1	5.2	22'448
SER	6212	Brassieres, girdles, corsets, braces, suspenders, garters, etc	16'705	8'306	47.6	6.5	9'103	52.2	15.8	7'602
SER	8537	Boards, panels, consoles, desks etc.. other than switching apparatus	15'185	8'622	18.4	2.1	715	58.7	5.3	14'470
SER	2101	Extracts, essences and concentrates, of coffee, tea or maté	13'042	7'743	39.8	9.6	417	60.0	15.5	12'625
SER	8512	Electrical lighting/signalling equipment	6'738	3'361	24.7	2.6	2'430	64.1	3.5	4'308
SER	8543	Electrical machines, apparatus with one functions nes.	6'301	3'388	3.8	3.3	688	59.9	2.8	5'613
TUR	3808	Insecticides, rodenticides... and similar products, for retail sale	187'713	105'093	62.9	6.0	5'068	55.8	6.0	182'645
TUR	2814	Ammonia, anhydrous or in aqueous solution	17'554	12'094	69.3	5.5	13'464	67.6	5.5	4'090

Across FTAs repeated offenders

Table 6 and Table 7 below report the subsequent step of the methodology, that is, the identification of those products at HS 4-digit level that are found to report a low utilization rates across a number of FTAs for EU exports or imports. It is obvious that the more a product is found to report a low utilization rate in more than one FTA for a significant amount of trade, the more it is likely that the PSRO associated to that product is causing such low utilization.

Despite the fact that PSROs can vary across agreements, the repeated offenders highlights that some PSROs are consistently inadequate across various agreements and need to be given a serious consideration for potential reform. Table 6 reports the observations that are among the top ten products exported to the EU ($R_{AI} = R_{AX} = 10$) with a utilization rate below 70% and a preference margin above 2pp for at least two different FTAs ($N_{AI} = N_{AX} = 2$). The first two columns refers to the product identified as repeated offender. Columns (3) reports the FTAs for which the product is critical together with the rank of such product in the EU critical imports within this FTA. For example, HS 8703 is the first critical products in terms of EU covered imports from Montenegro (MNE1), the third for Egypt (EGY3), the fourth for Albania (ALB4) and Norway (NOR4), the fifth for Switzerland (CHE5), etc. All the countries reported in column 3 therefore face difficulties to use the preference when exporting to the EU. Note that the case of Switzerland for 8703 already appeared in Table 4.

This analysis therefore strengthen the previous findings by showing that the product is not only critical for Switzerland exports to the EU but also for a number of other FTAs whose lower export values did not allow them to appear in Table 4, but for which HS 8703 still corresponds to a significant amount of trade since it lies among the top 10 critical products in terms of covered exports to the EU.

Table 6 displays the critical product rank until a maximum of 30. However, the selection criteria for the product to be considered as repeated offender and therefore be reported in the table is that at least two FTAs report for the same product a rank of being critical below or equal to 10. In the previous example for HS 8703, not two but eight FTAs are satisfying the condition (in bold).⁵¹

Column (4) reports the EU covered imports from all partners listed in column (3). This therefore represent the total value of “critical” imports at rank 30. Colum (5) shows the preference margin while column (6) and (7) are the simple and weighted average utilization rates of EU imports from the countries listed in (3). A simple average is calculated as the arithmetic average of the utilization rates of each country reported in (3) for the specific product while the weighted utilization rates is the sum of imports from the group of partners receiving the preference divided by the covered imports from the same partners.

Overall, the table finds again some of the products that appear regularly during this analysis as recording low utilization: petroleum oils, cars and parts of car thereof, a chemical product. In addition and differently from previous figures there are a rather conspicuous number of electrical machinery of chapter 85.

Indeed, the utilization rates, both arithmetic and weighted, reported in column (6) and (7) as explained above are showing extremely low utilization rates as low as 22 to 27% for boards and panels of HS 8537, or 17% to 8% for television of HS 8528. Utilization rates below 35% are reported in red.

⁵¹ Another example is HS 8708 that reads as follows: MEX1; LBN2; ISL3; CHL4; DZA11; PER14. The selection criteria (the reason why this product appears in the table) is because four countries report this product as critical with a rank below 10 (Mexico, Lebanon, Island, and Chile), which is above the selection criteria minimum threshold of two countries ($4 > N_{AI} = 2$).

Some FTAs appear more regularly than others. For EU covered import values above 50 million, South Korea has nine critical products with rank below or equal to 10 and is followed by Algeria with seven products and Mexico with six products.⁵²

Table 5 – Across agreements repeated offenders – EU imports
Critical products with product rank<=10 for at least two FTA sourcing partners (in bold)
(sorted in descending order of EU covered imports (4))

AROf Product		FTA	European Union imports			
HS4	Description	Partner and rank	Covered (\$000)	PM (pp)	UR (%)	WUR (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2710	Petroleum oils, etc. (excl. crude); preparations thereof, nes	DZA1; PER2; LBN10; NOR13; ALB13; MKD19;	506'596	2.6	28.9	58.5
8708	Parts and accessories of the motor vehicles of 87.01 to 87.05	MEX1; LBN2; ISL3; CHL4; DZA11; PER14;	202'542	3.8	24.8	47.8
8537	Boards, panels, consoles, desks etc.. other than switching apparatus	TUN1; MKD1; MAR2; MEX3; BIH4; DZA5; ISL11; LBN15; MNE16; SER17; EGY17; NOR20; ALB20; CHL21;	154'346	2.1	22	27.2
8536	Electrical apparatus for making connections, voltage not >1,000 volts	MEX2; MKD6; KOR11; ISL15; DZA15; CHL17; PER17; ALB28; NOR28; MNE29;	151'740	2.1	25.5	32.9
8529	Accessory parts for the apparatus in heading 85.25 to 85.28	KOR1; DZA4; MEX17; ISL28; EGY28;	124'296	3.2	13	35.3
8703	Motor cars and other motor vehicles principally designed passengers	MNE1; EGY3; NOR4; ALB4; CHE5; BIH6; DZA8; CHL9; LBN11; TUN13; PER13;	108'482	9.8	29.5	62.8
8207	Interchangeable hand tools, whether not power operated, rock drilling etc.	KOR2; ISL5; CHL7; PER8; TUN9; DZA10; EGY13; ALB21; NOR21; MNE23; MAR26;	104'839	2.7	29.4	67.1
8544	Insulated wire, cable, other insulated electric conductors; optical cables...	MEX4; PER5; KOR12; ISL19; NOR24; DZA24; ALB24;	95'016	2.9	30.8	25.1
3926	Other articles of plastics, nes	KOR4; NOR5; ALB5; MEX6; ISL13; CHL16; PER25;	90'677	5.2	44.8	46.2
8481	Tapes, valves, for pipes pressure reducing, thermostatically controlled valve	MNE6; DZA6; MEX7; KOR7; CHL8; ISL8; PER18; NOR27; ALB27;	79'078	2.2	16.1	34.6
7326	Other articles of iron or steel	SER1; KOR10; LBN13; MEX20; CHL22; ISL26;	79'011	2.6	46.5	60.6
8528	Television receivers(video monitors, projectors), reproducing apparatus	NOR1; ALB1; SER2; MKD4; CHE12; BIH13; MAR18; MEX27;	71'433	8.9	16.6	7.7
8543	Electrical machines, apparatus with one functions, nes.	TUN3; KOR8; SER19; CHL24; MEX26; BIH29; EGY30;	69'009	3.3	29.6	50.8

⁵² Further frequencies are as follows: four for Chile and Macedonia, three for Albania, Lebanon, Norway, Peru, Tunisia and Montenegro, two for Bosnia Herzegovina, Egypt, Norway, Serbia, Switzerland and Turkey, one for Morocco.

AROf Product		FTA	European Union imports			
HS4	Description	Partner and rank	Covered (\$000)	PM (pp)	UR (%)	WUR (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
8504	Electrical transformers, static converters and inductors	DZA3; KOR6; EGY6; NOR17; ALB17; PER21; MEX21; CHL27;	63'175	2.1	26.9	43.7
2921	Amine-function compounds	CHE6; TUR9;	63'099	5.3	56.6	66.2
8701	Tractors (other than tractors of heading 87.09)	TUR3; MKD5; BIH9; SER22; DZA30;	63'005	3.8	16.8	55.3
9405	Lamps, lighting fittings, not elsewhere specified including parts	KOR3; LBN5; MNE24; DZA29; ISL30;	61'193	3	29.2	44.6
8483	Transmission shafts, cranks, clutches, shaft couplings (universal joints)	MNE2; KOR5; LBN14; CHL15; PER15; EGY20; MKD27; MAR29;	50'390	2.1	39.2	66.3
8408	Compression-ignition, combustion piston engines (diesel)	MEX5; LBN9; MAR19; CHL23;	42'648	2.3	11.6	32.2
2938	Glycosides and their salts, ethers, esters and other derivatives	MAR6; CHE8; BIH30;	32'680	5.5	16.3	40.4
4202	Trunks, suit-cases...; handbags... and similar items of leather, etc	LBN4; MKD9; PER12; KOR17; CHL26;	31'931	4.3	26.9	20.1
6006	Knitted or crocheted fabrics, other than of 60.01- 60.04	MAR7; TUN7; KOR19; ALB30; NOR30;	30'961	8	38.9	67.3
8512	Electrical lighting/signaling equipment (excluding 85.39) etc..	MKD3; SER7; MEX12;	29'062	2.6	12.2	11.4
6309	Worn clothing and other worn articles	ISL6; CHE9; MAR13; TUN15;	27'874	5.3	28.1	60.4
306	Crustaceans, fresh, chilled or frozen	ISL1; ALB8; NOR8;	19'720	10.4	55.2	57.3
4011	New pneumatic tyres, of rubber	LBN3; PER4; MNE5; DZA9; CHL20; MEX28;	14'419	3.9	11.6	34.9
8802	Other aircraft, spacecraft, and spacecrats launch vehicles	EGY2; CHE10;	13'512	2.6	23.9	34.6
6217	Other made up clothing accessories; parts of garments	ALB2; NOR2; MAR12; LBN24;	10'733	8.2	21.8	10.3
4415	Packing cases... of wood; cable-drums of wood; pallets, etc, of wood	MNE4; BIH5; SER5; ALB6; NOR6; MKD12; ISL18; PER30;	9'713	3.5	37.1	58.6
3808	Insecticides, rodenticides... and similar products, for retail sale	TUR8; EGY9; SER9; MKD24;	6'938	6	47.6	52.5
7113	Jeweltes and parts of precious metal, metal clad with precious metal	LBN1; ISL9;	6'161	3	35.4	64.3
9015	Surveying equipments, appilances, excluding compasses; rangefinders	ISL2; PER9; EGY12; TUN12; TUR15; DZA17; MNE18; MAR25;	5'214	3.1	7.9	17.5
307	Molluscs and aquatic invertebrates, nes	ALB3; NOR3;	4'551	7.1	69.2	69.2
8705	Special purpose motor vehicles; not for persons or goods	MNE7; DZA7; SER13; ALB15; NOR15; EGY16; TUN22; MAR22;	3'125	3.7	3.9	1.8
2106	Food preparations not elsewhere specified or included	EGY4; BIH7; DZA13;	2'925	13.3	33.7	40
4107	Leather of other animals, without hair on	NOR7; ALB7; MKD10; CHL29;	1'892	6.4	43.4	52.1
208	Other meat and edible meat offal, fresh, chilled or frozen	NOR9; ALB9;	1'221	6.7	31.5	31.5

AROf Product		FTA	European Union imports			
HS4	Description	Partner and rank	Covered (\$000)	PM (pp)	UR (%)	WUR (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6102	Woman's or girls' overcoats and similar articles, knitted or crocheted	NOR10; ALB10;	1'065	12	56.3	56.3
6403	Footwear, with rubber, plastics, leather... soles, leather uppers	LBN7; MNE10;	636	7.7	65.4	64
7019	Glass fibres (incl. glass wool)	MNE3; CHL10;	556	6.7	0	0

Note: Utilization rate lower than 35% reported in red. AROf at exports AND imports, highlighted in red. FTA partners reported in (3) and associated imports in (4) are restricted to critical products at rank 30.

Table 7 reports the results of the analysis in the opposite direction of trade when EU exports to the FTA partners. The reading of the table is similar as for EU imports with the product HS code and description in columns (1) and (2) and the partner's name and rank in column (3). Column (4) shows the covered imports from the EU aggregated for all FTA partners listed under (3) and is therefore an indication of the overall exports of EU to the various FTAs where the utilization rate is below 70% and the preference margin above 2pp.

The most striking finding is the magnitude of trade flows that are significantly higher than on the EU import side. Therefore, despite that the utilization rates are not systematically lower when considering EU exports as compared to EU imports⁵³, results of Table 7 highlight a potentially important trade policy indication. They clearly show that despite important amount of trade, EU exporters are facing difficulties in fully utilizing trade preferences and/or partner countries are facing difficulties in administering RoO in the FTA, leading to potential massive losses in terms of duty savings.

In addition in most of the cases, the utilization rates is significantly lower than the ceiling of 70% for both arithmetic and weighted utilization rates reported in column 6 and 7. For the majority of products showing a significant amount of trade in terms of US billions i.e. the first 9 products at HS-4 digit, the utilization is around 50% or lower and this is equivalent to billions of trade flows from the EU to the trading partners that have not utilized trade preferences.

The repeated offenders are petroleum products, cars and parts thereof, machinery of chapter 84 and chemicals. As in the previous figure, a number of FTA partners seems to appear regularly as importers of EU goods that have not benefitted from trade preferences. For trade values above 100 000 million, Egypt leads the pack with 9 products with rank below or equal to 10, followed by Switzerland and Korea reporting 8 products, and 6 for Croatia, Mexico and Montenegro⁵⁴.

The 10 products appearing in both Table 6 and Table 7 are highlighted in each table. They correspond to the HS headings that are critical at rank 10 for a minimum of 2 FTAs, for EU imports and EU exports. It can already be noted that except HS 2710, all of these products have also been identified as bilateral repeated offenders in Table 5.

These nine remaining tariff headings will therefore be proposed as priority candidate for reformed PSRO in the last step of the methodology combining AROf and BROf (section 3.3.5).

⁵³ When applying the *repeated offenders* methodology, the asymmetry found on non-filtered aggregated data in the first report does not systematically hold but is still valid when considering the magnitude of critical trade that is much higher for EU exports than EU imports. See discussion in section 0.

⁵⁴ Further frequencies are as follows: five for Albania and Serbia, four for Morocco, three for Algeria and Turkey, 2 for Island and Nicaragua, and 1 for Macedonia.

Table 6 – Across agreements repeated offenders – EU exports
Critical products with product rank<=10 for at least two FTA importing partners (in bold)
(sorted in descending order of selected partners' imports from EU (4))

AROf Product		FTA	EU exports			
HS4	Description	ISO3 Code and Rank	Covered. (\$000)	PM (pp)	UR (%)	WUR (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2710	Petroleum oils, etc. (excl. crude); preparations thereof, nes	TUR1; EGY1;	5'955'292	3.7	34.3	46
8703	Motor cars and other motor vehicles principally designed passengers	KOR1; MEX2; EGY2;	4'691'169	16.2	48.2	54.3
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05	MEX1; HRV1; CHE1; KOR4; MAR4; EGY6; DZA19;	4'654'589	8	41.2	34.8
3004	Medicaments of mixed or unmixed products, for retail sale	DZA1; KOR3; MEX3; MAR9;	2'802'203	6.5	57.9	51.3
8479	Machines, mechanical appliances having individual functions etc.	KOR6; EGY7; MEX8; MAR13; DZA22;	1'601'666	5.1	43	49.6
8481	Tapes, valves, for pipes pressure reducing, thermostatically controlled valve	EGY5; MEX7; KOR8; DZA11;	1'366'527	4.4	39.9	42.5
4202	Trunks, suit-cases...; handbags... and similar items of leather, etc	ISL4; CHE5; KOR7; MNE13; HRV22;	1'333'282	9.5	43.6	37
8414	Air or vacuum pumps, exhausting and compression fans with/without filters	KOR9; MNE9; MEX11; EGY15; DZA27;	1'101'704	5.8	52.3	50.2
8413	Pumps for liquids, with or without measuring device; liquid elevators	MNE6; EGY10; KOR10; MEX15; DZA16;	1'096'197	5.3	50.2	52.4
8421	Centrifuges, centrifugal dryers; filtering, purifying apparatus; liquids, gases	SER4; MEX10; KOR14; EGY19; DZA20; MAR22;	914'337	5.7	48.5	44.3
3824	Prepared binders; chemical products, nes; residual products, nes	CHE6; EGY9; MKD24; DZA26; KOR27;	886'277	6.3	49.1	45.7
2711	Petroleum gases and other gaseous hydrocarbons	MAR1; EGY4; MNE8;	870'628	3.8	35	30.2
8443	Printing machinery, including ink-jet printing machines, other than those of heading No. 84.71;	CHE2; SER10;	617'053	3.2	52.6	49.7
8411	Turbo-jets, turbo-propellers and other gas turbines	DZA4; EGY8; KOR28;	543'974	5.3	34.7	34.5
6204	Women's or girls' suits, ensembles, jackets, dresses, skirts, etc	MNE3; CHE3; HRV7; ALB15;	524'122	12.3	43	41.5
6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, etc	ALB3; CHE4; HRV13; MNE15; SER29;	490'640	13.5	43.9	59.7
6110	Jerseys, pullovers, cardigans and similar articles, knitted or crocheted	HRV5; CHE8; ALB18; MNE27;	463'307	10	36.9	41.2
8408	Compression-ignition, combustion piston engines (diesel/semi-diesel engines)	MEX6; HRV6; MAR21; SER25;	454'704	5.2	39.2	12.2
2204	Wine of fresh grapes, (incl. fortified wines); other grape must	CHE7; NIC8;	447'711	25.6	4	1
3926	Other articles of plastics, nes	ALB8; MNE10; MEX12; MKD19; MAR20;	386'289	7.8	43.2	18.6
3808	Insecticides, rodenticides... and similar products, for retail sale	HRV2; SER3; TUR4; MAR26;	384'757	4.9	50.1	48.3

AROf Product		FTA	EU exports			
HS4	Description	ISO3 Code and Rank	Covered. (\$000)	PM (pp)	UR (%)	WUR (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
3304	Beauty, make-up, skin-care (incl. suntan), manicure... preparations	NIC1; MNE4; KOR16;	373'932	5.7	39.4	55.6
8474	Machinery for sorting, screening, agglomerating, forming foundry moulds	SER7; MAR10; DZA12;	328'080	5.9	27.3	24.7
8429	Self-propelled bulldozers, graders, levellers, scrapers, excavators, shovels...	SER5; DZA10; MAR18; EGY23;	282'922	3.6	49	48.1
7113	Jewelries and parts of precious metal, metal clad with precious metal	TUR2; ISL5;	223'321	6.5	68	69.4
6109	T-shirts, singlets and other vests, knitted or crocheted	ALB2; HRV10; CHE14; MNE19;	195'521	11.4	37.5	45.7
5209	Woven fabrics of cotton, with >=85% cotton, >=200g/m2	MKD6; ALB7; MAR17;	162'564	9	40	17.1
2402	Cigars, cigarillos, cigarettes, etc, of tobacco or tobacco substitutes	ALB1; HRV4; MNE5; SER23;	135'260	12.5	11	2.7
5407	Woven fabrics of synthetic filament yarn	MKD4; HRV9;	41'765	8.5	45.7	41.3
8528	Television receivers(video monitors, projectors),reproducing apparatus	ISL1; MNE1; SER8; ALB12;	37'761	4.6	21.8	13.4
8415	Air conditioning machines, with or without automatic conditioners	MNE7; ALB9;	8'663	6.8	56.7	56.6

Note: Utilization rate lower than 35% reported in red. ARO at exports AND imports, highlighted in red. FTA partners reported in (3) and associated imports in (4) are restricted to critical products at rank 30.

3.3.3 Matching critical products with their respective PSROs

Using the most exported and imported critical products reported in Table 3 and Table 4 above, a preliminary identification and analysis of the corresponding PSRO can be carried out.

Table 8 and Table 9 below report the various products previously identified as being critical and their corresponding PSRO (column (5)). For each product, a reformed rule is proposed in column (6). The proposals for alternative PSROs are tentative examples of alternative PSRO drawn mostly from the recent EU-Japan FTA and subject to further analysis and checks with the private sector of the specific industry to verify the findings and listen to suggestions. A forthcoming study on convergence of PSROs will provide more options of alternative PSROs based on best practices.⁵⁵

⁵⁵ See Inama *Towards Convergence on Rules of Origin Between Trade at the Regional and Multilateral Level*, Stefano Inama, Inter American Development Bank(IADB)and International Centre for Trade and Sustainable Development (ICTSD) March 2017

Table 7 – EU most exported *critical products* at rank 30 and corresponding rules of origin (FTA partners critical imports from EU in descending order of covered imports, USD million (4))

HS Product	FTA	Cov. Imp.	Rules of Origin	Proposed Reformed PSRO ⁵⁶
(1)	(2)	(3)	(4)	(5)
2710 Petroleum oils, etc,	TUR EGY	4'234; 1'721	Operations of refining and/or one or more specific process(es) (1) or Other operations in which all the materials used are classified within a heading other than that of the product. However, materials of the same heading as the product may be used, provided that their total value does not exceed 50% of the ex-works price of the product	For purposes of heading 2710, the following processes confer origin: (a) Atmospheric distillation: A separation process in which petroleum oils are converted, in a distillation tower, into fractions according to boiling point and the vapor then condensed into different liquefied fractions. (b) Vacuum distillation: Distillation at a pressure below atmospheric but not so low that it would be classed as molecular distillation. (c) A change to any good of heading 2710 from any other good of heading 2710, provided that the good resulting from such change is the product of a chemical reaction, atmospheric distillation or vacuum distillation; or (d) A change to heading 2710 from any other heading, except from heading 2207. ⁵⁷ This PSROs requires further studies and field interviews to identify a viable alternative ⁵⁸
8703 Motor cars & other motor vehicles	KOR	3'257	Manufacture in which the value of all the materials used does not exceed 45 % of the ex-works price of the product	This rule is reflecting the maximum percentage of VNOM recently agreed with Korea and Japan. Further evidence should be identified to suggest a different PSRO
	MEX	1'099	Manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product	Increase the percentage to 45 % as in other FTAS as recently agreed could be a solution
	EGY	335		
8708 ⁵⁹ Parts and accessories of motor vehicles	MEX	1'913	Manufacture in which all the materials used are classified within a heading other than that of the product, except for materials of headings: 5806 and 6307 and Chapter 73; 6813; 8482; Chapter 73 and catalytic exhaust gas purifier of heading 8421; 4011; or Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product	CTH or Max NOM 50% (EXW) or in case of reciprocity from partner CTSH may be envisaged

⁵⁶ The proposals for alternative PSROs in this table are based on EU method and related administrative procedures or alternative methodologies. They constitute tentative examples and further analysis and testings should be carried out to validate the technical and commercial feasibility of such alternative PSRO options in the specific context

⁵⁷ Excerpted from US-Korea FTA.

⁵⁸ The origin of petroleum products has not been the object of sufficient studies even if some complex origin questions may arise. See “*The Petroleum Industry and Free Trade Agreements: How Oil Companies can Benefit*” available at <https://www.slideshare.net/PeterMachielse/the-petroleum-industry-and-free-trade-agreements> and the NAFTA origin problem for Canadian producers, <https://business.financialpost.com/commodities/energy/canadas-oilpatch-pays-america-60-million-a-year-to-export-crude-and-usmca-may-not-help>

⁵⁹ In reality the original product specific rules of origin under the EU-Mexico FTA of 2000 listed a number of subdivisions for the heading 8708 that are not reported in this table for the sake of brevity,

HS Product	FTA	Cov. Imp.	Rules of Origin	Proposed Reformed PSRO ⁵⁶
(1)	(2)	(3)	(4)	(5)
	KOR	1'015	Manufacture from materials of any heading, except that of the product	
	CHE	952	Manufacture in which the value of all the materials used does not exceed 40 % of the ex-works price of the product	
	MAR	439		
	EGY	177		
	HRV	112		
	DZA	47		
2709 Crude Petrol. Oils	KOR	1'849	Manufacture from materials of any heading	CTSH
3004 Medicaments of mixed or unmixed products, for retail sale	KOR	1'476	Manufacture from materials of any heading, except that of the product. However, materials of the same heading as the product may be used, provided that their total value does not exceed 50% of the ex-works price of the product	CTSH; A chemical reaction, purification, mixing and blending, production of standard materials, a change in particle size, isomer separation or biotechnological processing is undergone; MaxNOM 50% (EXW)
	MEX			
	DZA			
	MAR			
8486 Machines and apparatus for semiconductor	KOR	982	Manufacture from materials of any heading, except that of the product or Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product	This PSRO is the latest elaboration of the EU rule in the most liberal form. A possible formulation borrowing other experiences could be: (A) a change to subheadings 8486.10 through 8486.40 from any other subheading; or (B) No change in tariff classification to such subheadings is required, provided that there is a regional value content of not less than: (i) 35 percent under the build-up method, or (ii) 45 percent under the build-down method
8479 Machines, mechanical appliances	KOR	912	Manufacture from materials of any heading, except that of the product or Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product	CTSH
	MEX	294		
	MAR	192		
	EGY	160		
	DZA	44		

Table 9 – EU most imported critical products at rank 30 and corresponding rules of origin
(EU critical imports from FTA partners in descending order of covered imports, USD million (4))

HS Product	FTA	Cov. Imp	Rule of Origin	Proposed Reformed PSRO ⁶⁰
(1)	(2)	(3)	(4)	(5)
2933 Hetero-cyclic compounds	CHE	1'696	Manufacture from materials of any heading. However, the value of all the materials of headings 2932 and 2933 used shall not exceed 20 % of the ex-works price of the product or Manufacture in which the value of all the materials used does not exceed 40 % of the ex-works price of the product	<ul style="list-style-type: none"> • CTSH; • A chemical reaction, purification, a change in particle size, production of standard materials, isomer separation or biotechnological processing is undergone; • MaxNOM 50 % (EXW)
	KOR	11		•
2924 Carboxy-amide-function	CHE	983	Manufacture from materials of any heading, except that of the product. However, materials of the same heading as the product may be used, provided that their total value does not exceed 20 % of the ex-works price of the product or Manufacture in which the value of all the materials used does not exceed 40 % of the ex-works price of the product	<ul style="list-style-type: none"> • CTSH; • A chemical reaction, purification, a change in particle size, production of standard materials, isomer separation or biotechnological processing is undergone; • MaxNOM 50 % (EXW);
2934 Other hetero-cyclic compounds	CHE	573	Manufacture from materials of any heading. However, the value of all the materials of headings 2932, 2933 and 2934 used shall not exceed 20% of the ex-works price of the product or Manufacture in which the value of all the materials used does not exceed 40 % of the ex-works price of the product	<ul style="list-style-type: none"> • CTSH; • A chemical reaction, purification, a change in particle size, production of standard materials, isomer separation or biotechnological processing is undergone; • MaxNOM 50 % (EXW);
0802 Other nuts	TUR	519	Manufacture in which: - all the fruit and nuts used are wholly obtained, and - the value of all the materials of Chapter 17 used does not exceed 30 % of the value of the ex-works price of the product	All products of chapter are wholly obtained
2710 Petroleum oils	DZA	502	Operations of refining and/or one or more specific process(es) (2) or other operations in which all the materials used are classified within a heading other than that of the product. However, materials of the same heading as the product may be used, provided that their total value does not exceed 50 % of the ex-works price of the product	CTH except from biodiesel of subheadings 3824.99 and 3826.00; or Distillation or a chemical reaction is undergone, provided that biodiesel (including hydrotreated vegetable oil) of heading 27.10 and subheadings 3824.99 and 3826.00 used is obtained by esterification, transesterification or hydrotreatment.
2922 Oxygen-function amino-comp.	CHE	228	Manufacture from materials of any heading, except that of the product. However, materials of the same heading as the product may be used, provided that their total value does not exceed 20 % of the ex-works price of the product or Manufacture in which the value of all the materials used does not exceed 40 % of the ex-works price of the product	<ul style="list-style-type: none"> • CTSH; • A chemical reaction, purification, a change in particle size, production of standard materials, isomer separation or biotechnological processing is undergone; • MaxNOM 50 % (EXW);
0808 Apples, pears, quinces	CHL	218	Manufacture in which: all the fruit and nuts used are wholly obtained, and the value of all the materials of Chapter 17 used does not exceed 30% of the ex-works price of the product	Eliminate or lessen the requirements for use of sugar of chapter 17

⁶⁰ See footnote 56.

3.3.4 Matching bilateral repeated offenders with PSRO – selected examples

In Table 10 below, a few examples of bilateral repeated offenders that have been matched with their corresponding rules of origin are provided. Similarly to the previous section, for each case, a reformed product-specific rule of origin is proposed in the last column.

Table 9 – Bilateral repeated offenders and corresponding PSRO – selected examples
(sorted in descending order of received imports of column (4) in USD thousands)

HS	FTA	Trade Cov.	Trade Rec.	Rule of Origin	Proposed Reformed PSROs / administrative procedures ⁶¹
(1)	(2)	(3)	(4)	(5)	(6)
8711	CHE	202'331	121'726		MaxNOM 45 % (EXW)
8712	CHE	98'040	11'592	Manufacture in which the value of all the materials used does not exceed 30 % of the ex-works price of the product	MaxNOM 45 % (EXW)
4202	KOR	894'308	210'866	Manufacture from materials of any heading, except that of the product	CTSH
8481	KOR	858'780	376'402		
8483	KOR	709'866	343'356		
7326	KOR	385'230	93'930	Manufacture from materials of any heading, except that of the product	CTSH
8501	KOR	355'520	178'988		
8504	KOR	326'133	146'033		
8482	KOR	305'892	166'891	Manufacture from materials of any heading, except that of the product or Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product	CTH; MaxNOM 50 % (EXW);
8708	MEX	2'111'191	281'431	Manufacture in which all the materials used are classified within a heading other than that of the product, except for materials of headings 5806 and 6307 and Chapter 73 or Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product	CTH or Max NOM 50 % (EXW) or in case of reciprocity from partner CTSH may be envisaged
8408	MEX	354'868	25'654	Manufacture in which the value of all the materials used does not exceed 60 % of the ex-works price of the product	CTH or Max NOM 50 % (EXW) or in case of reciprocity from partner CTSH may be envisaged
8481	MEX	343'987	131'656	Manufacture in which all the materials used are classified within a heading other than that of the product	CTH; MaxNOM 50 % (EXW);
3926	MEX	286'569	47'865	Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product	CTH; MaxNOM 50 % (EXW)
8544	MEX	280'483	64'329	Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product	CTH except from headings 74.08, 74.13, 76.05 and 76.14; MaxNOM 50 % (EXW);
8537	MEX	245'495	76'546	Manufacture in which all the materials used are classified within a heading other than that of the product, except for materials of heading 8503 or Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product	CTH
8501	MEX	200'662	69'372		
8504	MEX	125'708	45'732		

⁶¹ See footnote 56.

3.3.5 Matching bilateral & cross-agreements repeated offenders with PSRO as priority candidates for reform

The last step of this analysis has been to combine the two types of Repeated Offenders and to keep only the products that are included in both type of repeated offenders, the bilateral and cross-agreement repeated offenders.

There are four options to combine the bilateral repeated offenders with the cross agreement repeated offenders as follows:

- a. EU exports: 19 repeated offenders identified corresponding to 12 HS headings.
- b. EU imports: 35 repeated offenders identified corresponding to 22 HS headings.
- c. Both directions of trade taken together as a cumulative and therefore stricter condition ((a) and (b)): 16 repeated offenders identified corresponding to 9 HS headings.
- d. EU exports and imports as alternative conditions ((a) or (b)): 38 repeated offenders identified corresponding to 25 HS headings.

Table 11 reports the results of methodology (d) and allows to identify the repeated offenders of the more restrictive methodologies (a)-(c).

Table 10 – Bilateral and cross-agreements repeated offenders – alternative condition (Methodology case (d))

HS4	Bilateral R.O. and Trade (\$000)					FTA & Rank (EU Imports)	EU Imports (\$000)			FTA and Rank (EU Exports)	Part. Imports (\$000)		
	ISO3	Covered	PM	W. UR	UR		Cov.	WU R	UR		Cov.	W. UR	UR
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
8708	MEX DZA	2'111'191 46'837	3.2 8.0	13.3 58.8	28.9 29.9	MEX1; LBN2; ISL3; CHL4; DZA11; PER14	202'542	47.8	24.8	HRV1; CHE1; MEX1; KOR4; MAR4; EGY6; DZA19;	4'654'589	34.8	41.2
8703	EGY	337'202	9.1	41.7	39.7	MNE1; EGY3; NOR4; ALB4; CHE5; BIH6; DZA8; CHL9; LBN11; PER13; TUN13;	108'482	62.8	29.5	KOR1; EGY2; MEX2;	4'691'169	54.3	48.2
8481	KOR MEX DZA	858'780 343'987 61'146	3.5 2.4 5.1	43.8 38.3 30.9	45.6 28.9 26.3	MNE6; DZA6; KOR7; MEX7; ISL8; CHL8; PER18; NOR27; ALB27;	79'078	34.6	16.1	EGY5; MEX7; KOR8; DZA11;	1'366'527	42.5	39.9
4202	KOR	894'308	5.5	23.6	21.7	LBN4; MKD9; PER12; KOR17; CHL26;	31'931	20.1	26.9	ISL4; CHE5; KOR7; MNE13; HRV22	1'333'282	37.0	43.6
8483	KOR MNE	709'866 4'174	3.9 3.7	48.4 44.8	58.1 46.7	MNE2; KOR5; LBN14; CHL15; PER15; EGY20; MKD27; MAR29	50'390	66.3	39.2	MEX5; KOR11; MNE29;	982'941	36.7	37.4

HS4	Bilateral R.O. and Trade (\$000)					FTA & Rank (EU Imports)	EU Imports (\$000)			FTA and Rank (EU Exports)	Part. Imports (\$000)		
	ISO3	Covered	PM	W. UR	UR		Cov.	WU R	UR		Cov.	W. UR	UR
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
8544	MEX	280'484	4.2	22.9	17.3	MEX4; PER5; KOR12; ISL19; ALB24; NOR24; DZA24;	95'016	25.1	30.8	MAR2; MEX14; EGY14;	886'651	15.3	16.9
8537	MEX	245'495	3.5	31.2	25.9	MKD1; TUN1; MAR2; MEX3; BIH4; DZA5; ISL11; LBN15; MNE16; SER17; EGY17; ALB20; NOR20; CHL21	154'346	27.2	22.0	SER11; KOR13; MEX17; DZA21;	618'175	34.7	38.5
	DZA	45'142	4.6	23.7	12.1								
	SER	15'185	3.7	56.8	38.6								
8504	KOR	326'133	4.0	44.8	48.8	DZA3; EGY6; KOR6; ALB17; NOR17; PER21; MEX21; CHL27	63'175	43.7	26.9	DZA8; KOR23; MEX27;	461'526	42.1	41.5
	MEX	125'708	2.4	36.4	27.4								
	DZA	71'556	2.2	41.6	23.9								
6204	MNE	3'678	11.0	42.5	21.5	MNE27;	20	0.3	0.3	CHE3; MNE3; HRV7; ALB15	524'122	41.5	43.0
8408	MEX	354'868	2.9	7.2	18.4	MEX5; LBN9; MAR19; CHL23;	42'648	32.2	11.6	MEX6; HRV6; MAR21; SER25;	454'704	12.2	39.2
	MAR	116'889	5.2	23.4	17.4								
3926	MEX	286'569	7.0	16.7	23.3	KOR4; NOR5; ALB5; MEX6; ISL13; CHL16; PER25;	90'677	46.2	44.8	ALB8; MNE10; MEX12; MKD19; MAR20;	386'289	18.6	43.2
	ALB	7'392	5.4	63.9	51.6								
7326	KOR	385'230	5.3	24.4	42.8	SER1; KOR10; LBN13; MEX20; CHL22; ISL26;	79'011	60.6	46.5	KOR19;	343'266	19.2	19.2
3808	TUR	187'713	6.0	56.0	59.3	TUR8; EGY9; SER9; MKD24;	6'938	52.5	47.6	HRV2; SER3; TUR4; MAR26;	384'757	48.3	50.1
	SER	50'533	4.7	58.1	34.0								
6006	MAR	195'930	10.7	3.1	31.2	MAR7; TUN7; KOR19; ALB30; NOR30	30'961	67.3	38.9	MKD3; HRV11; MAR12;	233'014	11.3	38.2
7113	ISL	1'825	6.5	58.4	35.4	LBN1; ISL9;	6'161	64.3	35.4	TUR2; ISL5;	223'321	69.4	68.0
6109	MNE	1'342	11.0	56.1	59.4	MNE11; MEX22;	15'329	37.4	50.2	ALB2; HRV10; CHE14; MNE19	195'521	45.7	37.5
5209	MKD	21'908	9.0	40.4	42.6	MKD18;	124	44.9	44.9	MKD6; ALB7; MAR17;	162'564	17.1	40.0
8529	ISL	655	3.5	55.2	40.3	KOR1; DZA4; MEX17; EGY28; ISL28;	124'296	35.3	13.0	ISL15;	593	58.6	58.6
8705	EGY	59'725	8.0	36.4	18.3	DZA7; MNE7; SER13; ALB15; NOR15; EGY16; MAR22; TUN22	3'125	1.8	3.9	DZA13; EGY25;	113'967	36.3	36.3
	DZA	54'837	3.1	35.8	18.0								
8528	SER	38'551	7.0	1.2	1.1		71'433	7.7	16.6		37'761	13.4	21.8

HS4	Bilateral R.O. and Trade (\$000)					FTA & Rank (EU Imports)	EU Imports (\$000)			FTA and Rank (EU Exports)	Part. Imports (\$000)		
	ISO3	Covered	PM	W. UR	UR		Cov.	WU R	UR		Cov.	W. UR	UR
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	ALB	21'466	7.2	3.8	7.8	ALB1; NOR1; SER2; MKD4; CHE12; BIH13; MAR18; MEX27;				ISL1; MNE1; SER8; ALB12;			
8543	SER	6'301	3.0	53.8	31.9	TUN3; KOR8; SER19; CHL24; MEX26; BIH29; EGY30;	69'009	50.8	29.6	SER24;	5'613	59.9	59.9
6309	ISL	639	7.7	0.3	0.2	ISL6; CHE9; MAR13; TUN15;	27'874	60.4	28.1	ALB4; ISL25; NIC28; TUR29;	10'749	0.8	2.9
6217	ALB	10'363	8.6	15.9	15.1	ALB2; NOR2; MAR12; LBN24;	10'733	10.3	21.8	ALB10; TUR18; HRV26; MKD29;	25'302	43.4	42.0
8512	SER	6'738	3.0	49.9	44.4	MKD3; SER7; MEX12;	29'062	11.4	12.2	SER30;	4'308	64.1	64.1
4107	MKD	25'686	9.4	55.4	41.8	NOR7; ALB7; MKD10; CHL29;	1'892	52.1	43.4	MKD5;	25'414	55.7	55.7

Notes: Data sorted in descending order of (i) total critical trade at rank 30 (sum of (8) and (9)), ie. EU imports and exports of critical products at rank 30 from/to partners reported in (7) and (11), and (ii) covered bilateral trade within a given tariff heading (EU imports and exports, (3));

Highlights reading grid:

Red – 9 repeated offenders at the bilateral level and across agreements for both EU imports and EU exports, corresponds to methodology case (c).

Blue – 3 bilateral repeated offenders repeating across agreements on the EU export side only. Red and Blue RPOf together corresponds to methodology case (a)

White – 26 bilateral repeated offenders repeating across agreements on the EU import side only. Red and white RPOf together corresponds to methodology case (b);

Interestingly, the 16 repeated offenders identified in this section have already been detected in Table 6 and Table 7. The bilateral restriction imposing that the good is exported imported in large quantities from/to the same country applied in this section only results in the exclusion of HS 2710 (see discussion in section 3.1, Box 1).

Table 12 below matches the bilateral and cross –agreements repeated offenders with the respective PSROs that have been applied under each FTA and a proposed reformed PSRO drawn from the most recent and modernized EU-FTAs.

A brief comparison of the PSROs under the respective FTAs identified as bilateral and cross agreement repeated offender and the proposed reformed PSROs clearly shows that the proposed PSROs excerpted from most recent EU FTAs are remarkably more liberal than the previous ones.

This final finding strengthens once again the link among stringency of PSROs and low utilization of trade preferences. This being said the proposed PSROs should be tested and validated as a viable reformed PSROs with the firms operating in the specific industrial sector.

Table 11 – Bilateral and cross-agreements repeated offenders: proposal for reformed PSROs

HS Code	FTA ISO3	Covered Trade (\$000)		Rule of Origin	Proposed Reformed PSRO
		Bilateral	CR R30		
(1)	(2)	(3)	(4)	(5)	(6)
8708	MEX	2'111'191	4'857'131	Manufacture in which all the materials used are classified within a heading other than that of the product, except for materials of headings 5806 and 6307 and Chapter 73 or Manufacture in which the value of all the materials used does not exceed 50% of the ex-works price of the product	CTH; MaxNOM 50 % (EXW)
	DZA	46'837		Manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product	
8703	EGY	337'202	4'799'651	Manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product	CTH; MaxNOM 50 % (EXW)
8481	KOR	858'780	1'445'605	Manufacture in which all the materials used are classified within a heading other than that of the product	CTH; MaxNOM 50 % (EXW);
	MEX	343'987			
	DZA	61'146			
4202	KOR	894'308	1'365'213	Manufacture from materials of any heading, except that of the product	CTSH may be envisaged
8408	MEX	354'868	497'352	Manufacture in which the value of all the materials used does not exceed 60 % of the ex-works price of the product	MaxNOM 50 % (EXW);
	MAR	116'889		Manufacture in which the value of all the materials used does not exceed 40% of the ex-works price of the product	
3926	MEX	286'569	476'966	Manufacture in which the value of all the materials used does not exceed 50% of the ex- works price of the product	CTH; MaxNOM 50 % (EXW);
	ALB	7'392			
3808	TUR	187'713	391'695		CTSH; A chemical reaction, purification, production of standard materials, isomer separation or biotechnological processing is undergone; MaxNOM 50 % (EXW)
	SER	50'533			

Note: CR R30 refers to trade of critical products at rank 30, the total of EU exports and imports of critical products with rank below or equal to 30 to/from FTA partners.

4. Conclusion and way forward

Utilization rates can offer a merciless picture of the effective use of a preferential trade arrangement and this is the main reason why Governments and trade officials are wary of utilization rates especially when linked to rules of origin. This is not surprising since low utilization rates are showing to Governments and trade officials that certain rules of origin and related procedures in a PTA are not being negotiated effectively, forcing them back to the negotiating table and to their parliament.

In some cases low utilization rates in specific sectors may also be the deliberate result of targeted negotiation aiming at insulating specific industries from the competition deriving from FTA⁶²

The analysis in this study clearly shows that certain rules of origin provisions, for instance article 13 on direct transport of the EU-South Korea FTA could have been better formulated, that the product specific rules of origin in the EU-Mexico FTA needed revisions that were recently introduced and that further analysis is needed to understand the reasons for asymmetrical low utilization of the EU-Switzerland. On this latter case the recent debates in the WTO Committee on Rules of Origin over low utilization rates of the Swiss GSP by LDCs points to administrative requirements related to direct transport and territoriality requirement as being possible causes for such low utilization.

The methodology adopted in this paper clearly identifies critical products and product-specific rules of origin (PSROs) that need reform as a result of bilateral FTAs and cross-FTAs analysis carried out in this study. These repeated offender product-specific rules of origin are the obvious candidate for reform. Some findings of this report have already found their way and have been incorporated in the EU-Japan FTA and the modernized EU-Mexico FTA especially in automotive. Much more need to be done. The results of this study identify other product-specific rules of origin in the petroleum, chemical, garments and machinery sectors as repeated offenders and responsible for pockets of low utilization rates. Further consultations with the private sector to discuss these findings and counterfactuals would make it possible to better understand the reasons for such low utilization and formulate or validate the alternative rules of origin based on best practices suggested in this study.

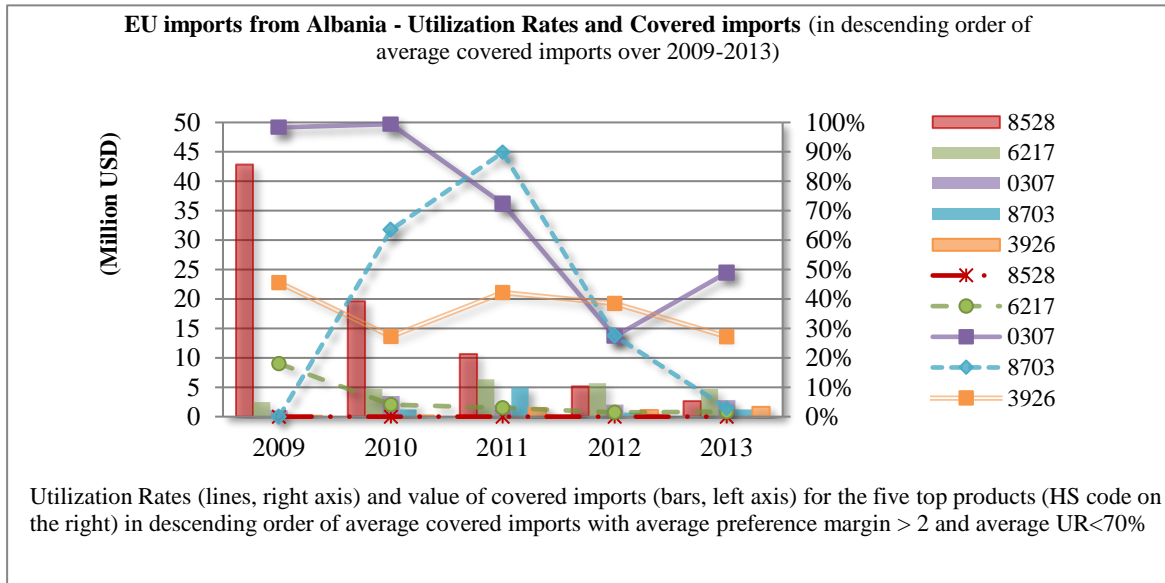
Finally, it is extremely important to make clear that this study advocates a methodology to identify the reasons for low utilization due to rules of origin and related administrative procedures that should be used by Government and trade officials. It does not suggest magical solutions. It suggests that Government and trade officials recognize the use of utilization rates and a rigorous analysis as a valid tool to identify and diagnose clearly and unequivocally the reasons for pockets of low utilization of a FTA, mostly due to rules of origin and related administrative procedures.

Such rigorous analysis and its results, as unpleasant as it may be, should be recognized, seriously considered, and acted upon by Governments and trade officials rather than resort to denial attitudes and anecdotal evidence based on enduring myths.

⁶² See Kala Krishna, Understanding rules of origin Working Paper 11150 <http://www.nber.org/papers/w11150> NATIONAL BUREAU OF ECONOMIC RESEARCH 1050 Massachusetts Avenue Cambridge, MA 02138 February 2005

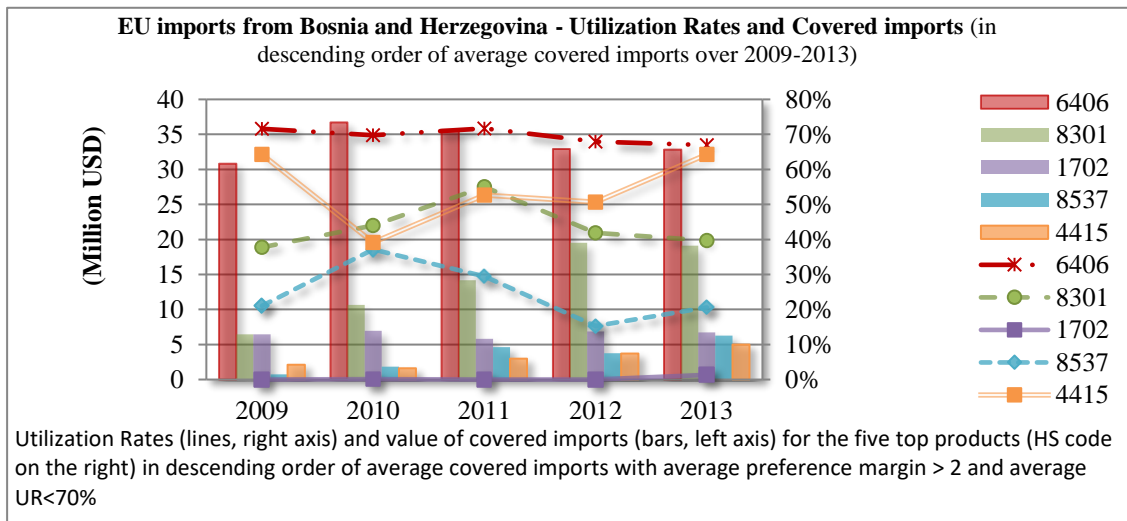
Annex I – EU Imports from Partners

Albania



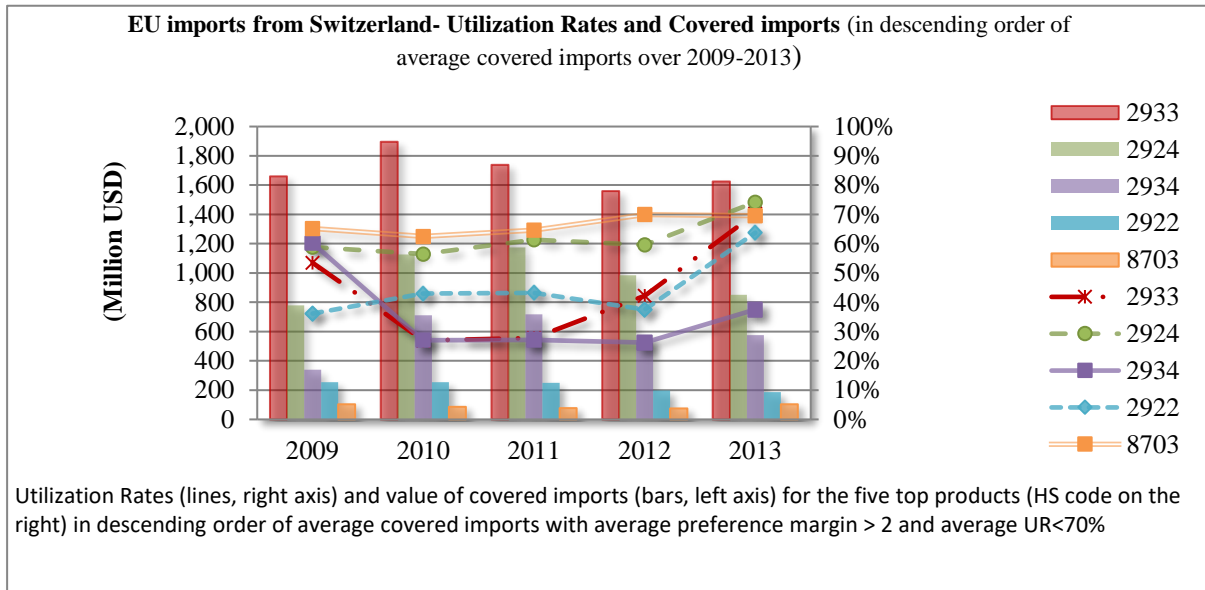
8528	Television receivers(video monitors,projectors),reproducing apparatus
6217	Other made up clothing accessories; parts of garments
0307	Molluscs and aquatic invertebrates, nes
8703	Motor cars and other motor vehicles principally designed passengers
3926	Other articles of plastics, nes

Bosnia and Herzegovina



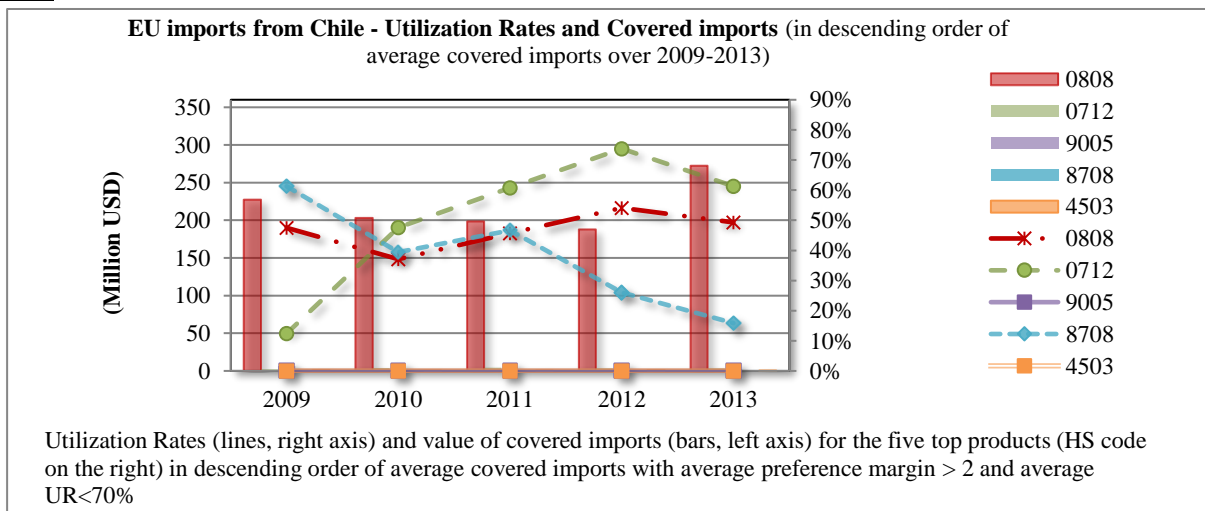
6406	Parts of footwear; removable in-soles, etc; gaiters, leggings, etc
8301	Padlocks,locks of base metal;claps,frames,incorporating locks of base metal
1702	Other sugars, including chemically pure lactose, maltose, glucose and fructose, in solid form; sugar syrups
8537	Boards,panels,consoles,desks etc.. other than switching apparatus
4415	Packing cases... of wood; cable-drums of wood; pallets, etc, of wood

Switzerland



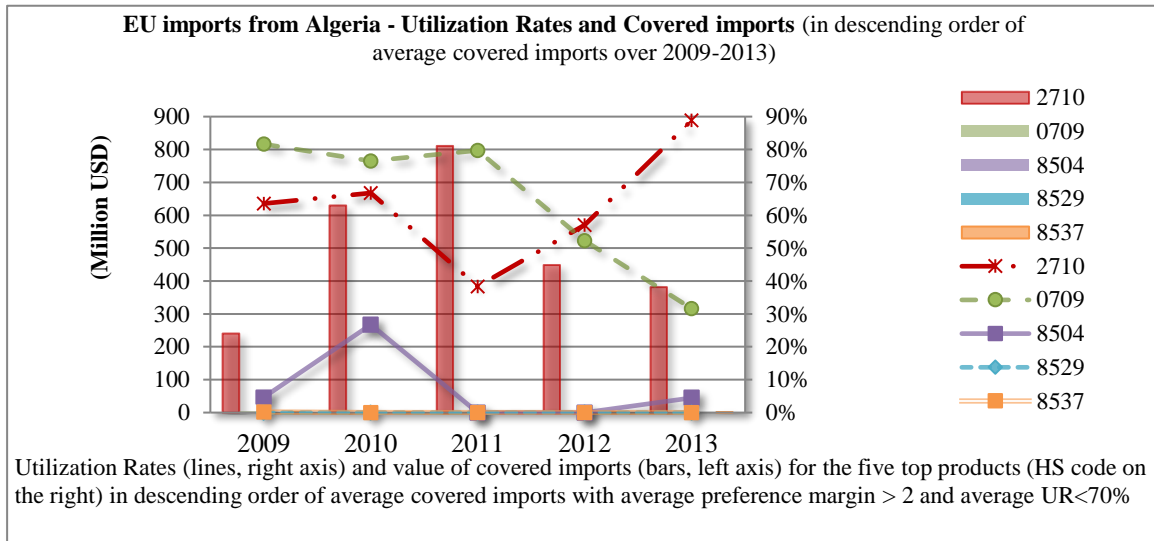
2933	Heterocyclic compounds with nitrogen hetero-atom(s) only; nucleic acids
2924	Carboxamide-function; amide-function compounds of carbonic acid
2934	Other heterocyclic compounds
2922	Oxygen-function amino-compounds
8703	Motor cars and other motor vehicles principally designed passengers

Chile



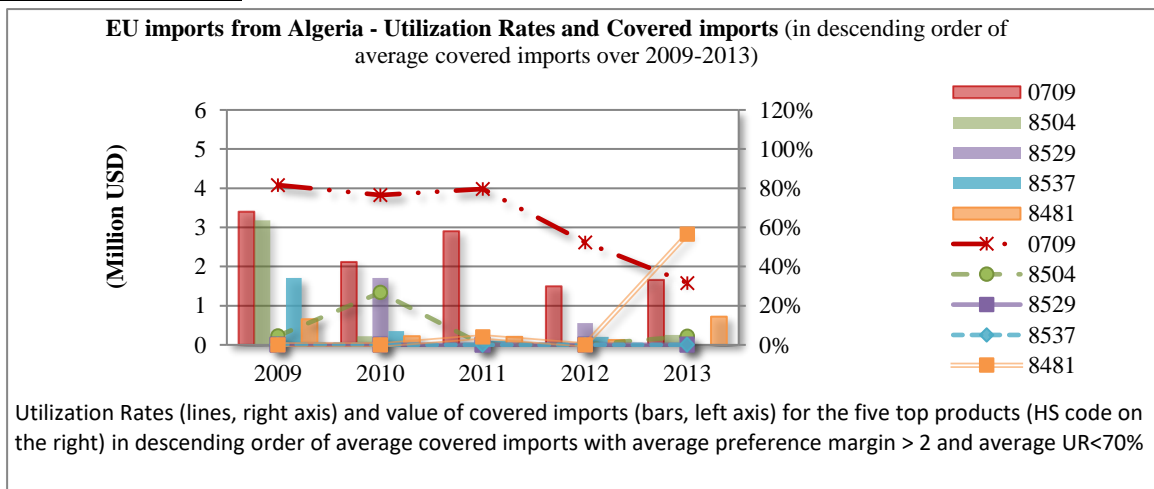
0808	Apples, pears and quinces, fresh
0712	Dried vegetables, whole, cut, sliced, broken or in powder
9005	Astronomical instruments, mountings, but not radio-astronomical instruments
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05
4503	Articles of natural cork

Algeria



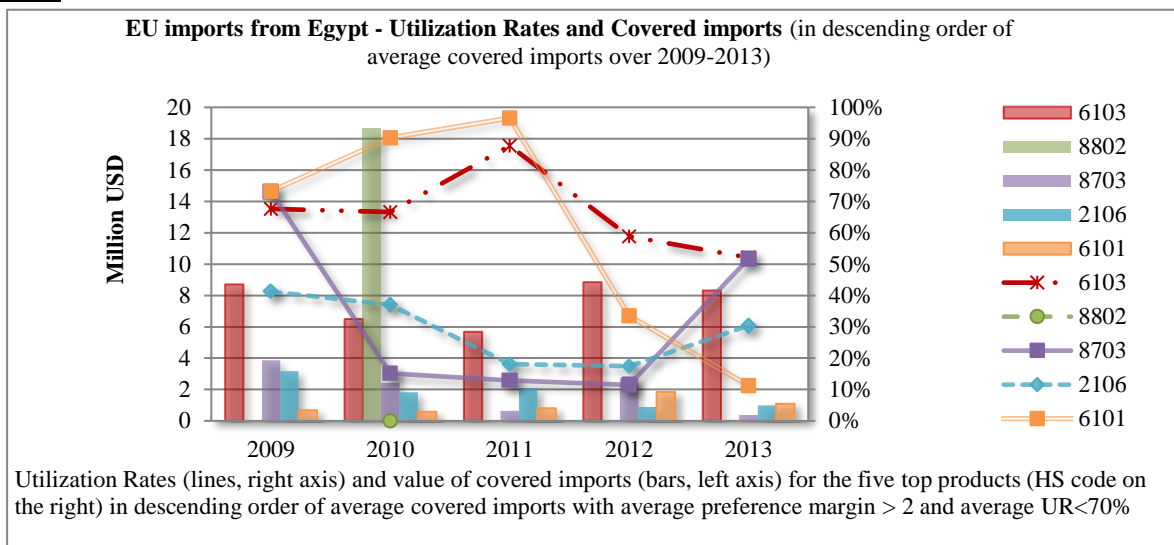
2710	Petroleum oils, etc. (excl. crude); preparations thereof, nes
0709	Other vegetables, fresh or chilled
8504	Electrical transformers,static converters and inductors
8529	Accessory parts for the apparatus in heading 85.25 to 85.28
8537	Boards,panels,consoles,desks etc.. other than switching apparatus

Algeria excluding HS27



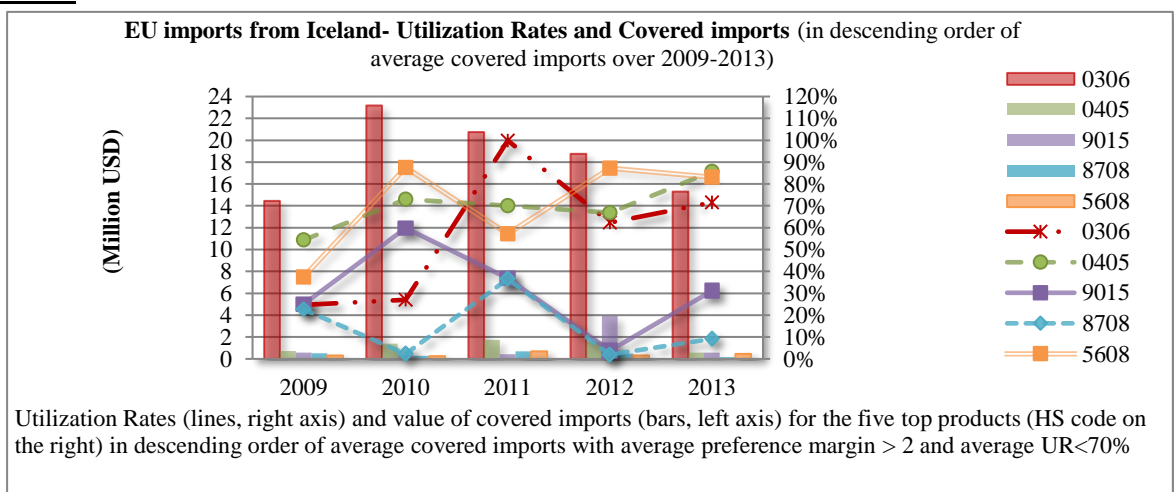
0709	Other vegetables, fresh or chilled
8504	Electrical transformers,static converters and inductors
8529	Accessory parts for the apparatus in heading 85.25 to 85.28
8537	Boards,panels,consoles,desks etc.. other than switching apparatus
8481	Tapes,valves,for pipes pressure reducing,thermostatically controlled valve

Egypt



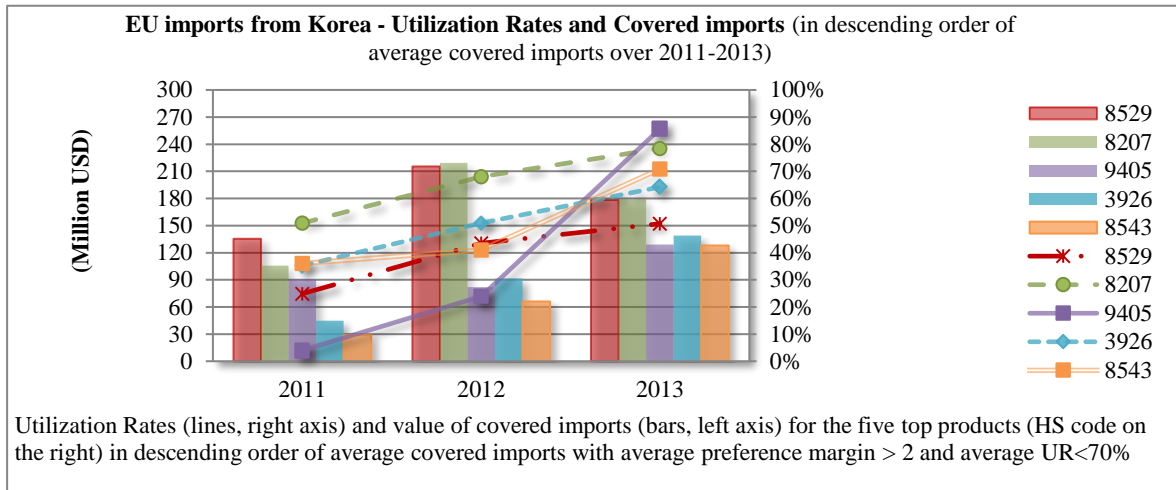
6103	Men's or boys' suits, ensembles, etc, knitted or crocheted
8802	Other aircraft,spacecraft,and spacecrats launch vehicles
8703	Motor cars and other motor vehicles principally designed passengers
2106	Food preparations not elsewhere specified or included
6101	Men's or boys' overcoats... and similar articles, knitted or crocheted

Iceland



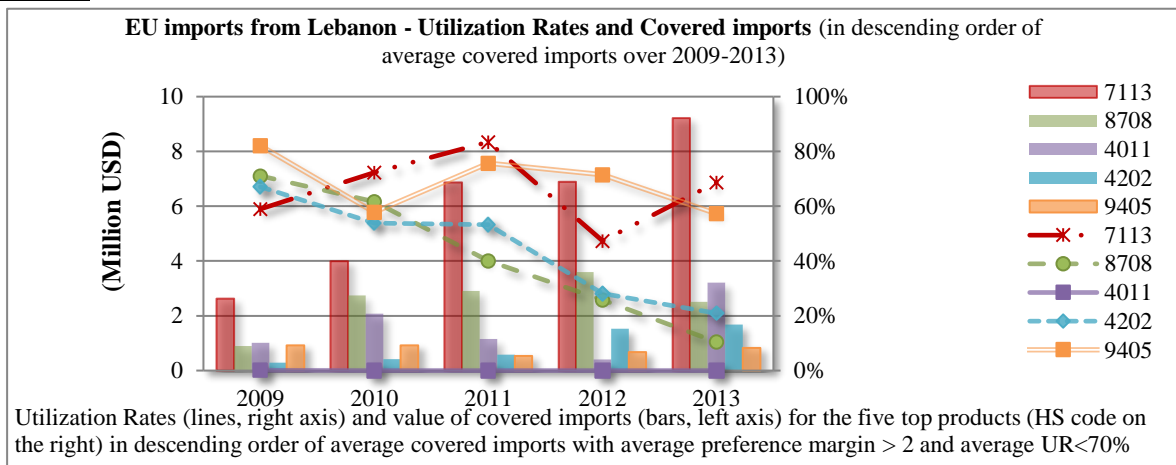
0306	Crustaceans, fresh, chilled or frozen
0405	Butter and other fats and oils derived from milk
9015	Surveying equipments,appliances,excluding compasses;rangefinders
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05
5608	Knotted netting of twine, cordage or rope; made up fishing nets, etc

Korea



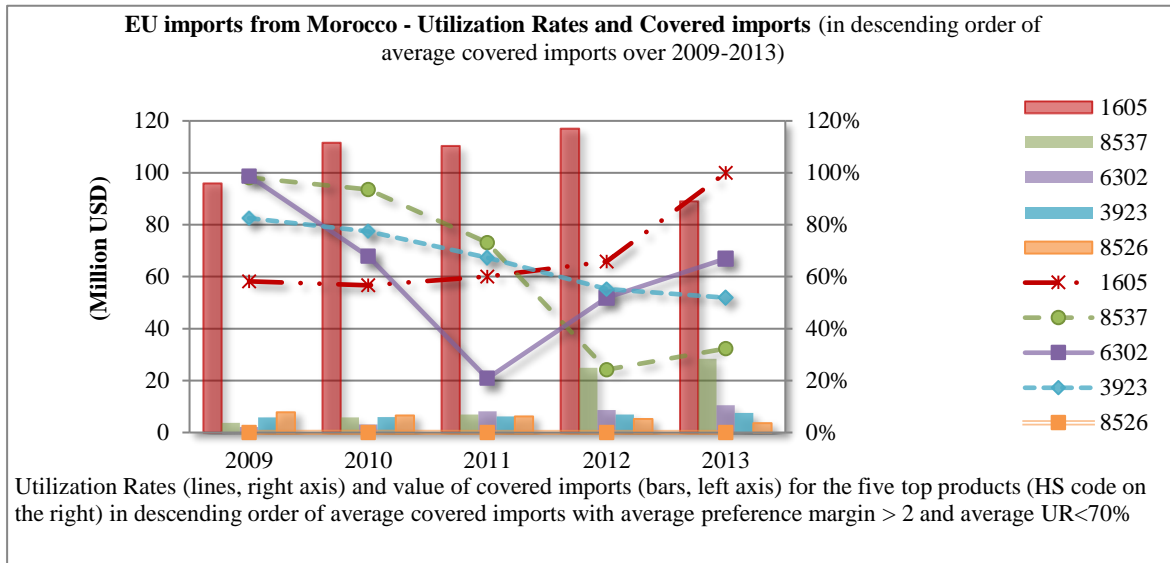
8529	Accessory parts for the apparatus in heading 85.25 to 85.28
8207	Interchangeable hand tools, whether not power operated, rock drilling etc.
9405	Lamps, lighting fittings, not elsewhere specified including parts
3926	Other articles of plastics, nes
8543	Electrical machines, apparatus with one functions not specified elsewhere

Lebanon



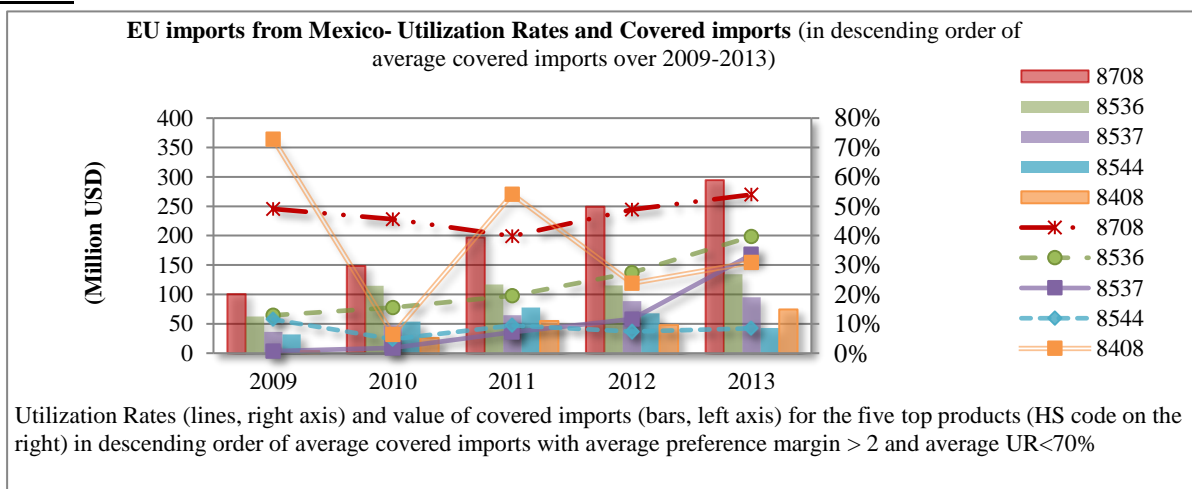
7113	Jewelles and parts of precious metal, metal clad with precious metal
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05
4011	New pneumatic tyres, of rubber
4202	Trunks, suit-cases...; handbags... and similar items of leather, etc
9405	Lamps, lighting fittings, not elsewhere specified including parts

Morocco



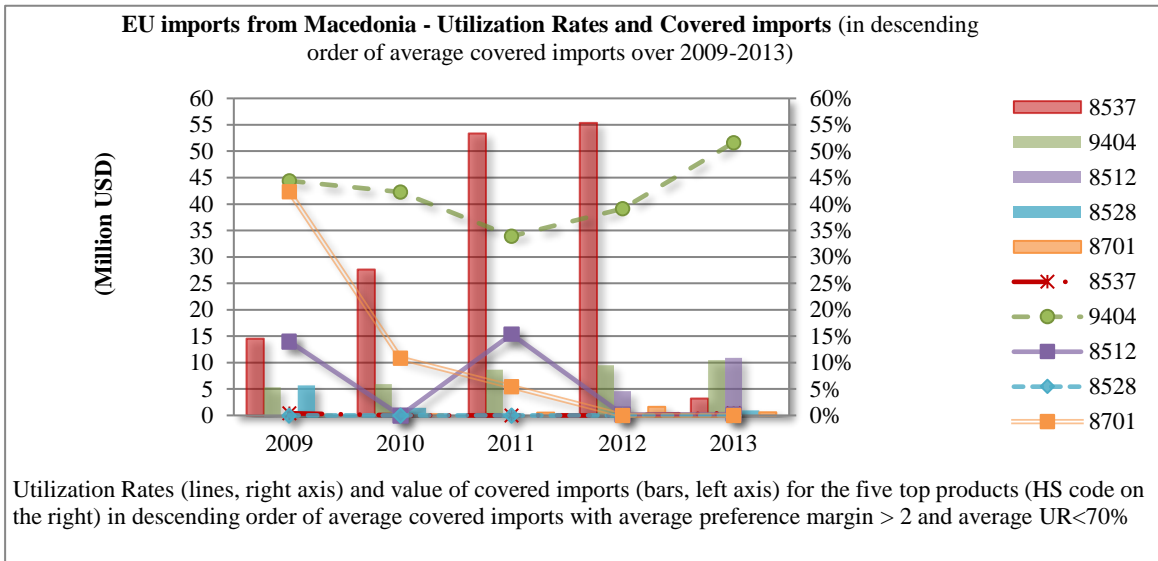
1605	Crustaceans, molluscs and other aquatic invertebrates, prepared or preserved.
8537	Boards,panels,consoles,desks etc.. other than switching apparatus
6302	Bed linen, table linen, toilet linen and kitchen linen
3923	Articles for the goods, of plastics; stopers, etc, of plastics
8526	Radar,radio navigational aid apparatus,remote control apparatus

Mexico



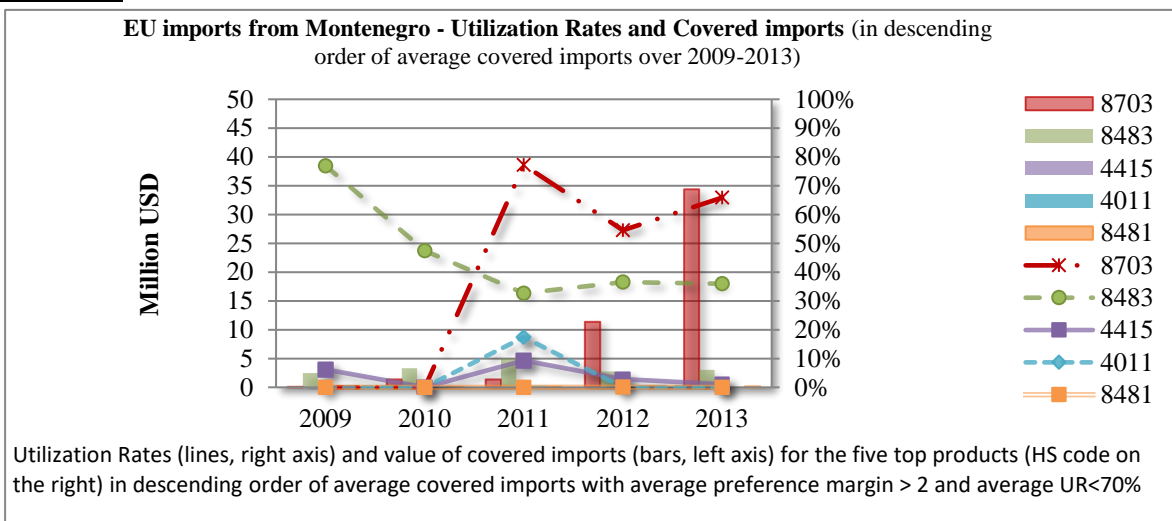
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05
8536	Electrical apparatus for making connections,voltage not >1,000 volts
8537	Boards,panels,consoles,desks etc.. other than switching apparatus
8544	Insulated wire,cable,other insulated electric conductors;optical cables...
8408	Compression-ignition,combustion piston engines(diesel/semi-diesel engines)

Macedonia



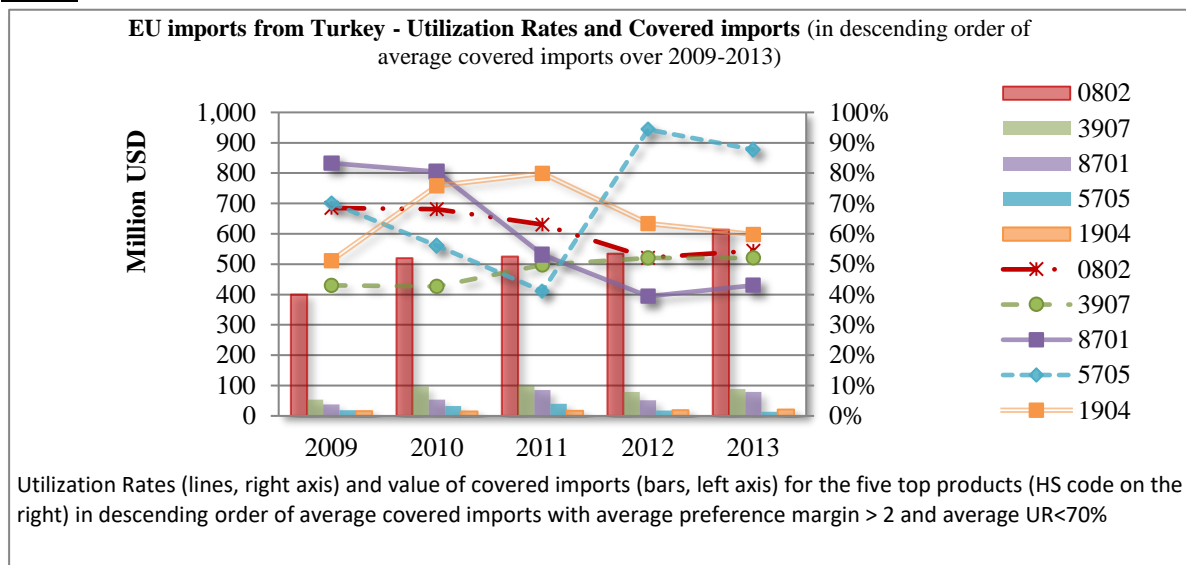
8537	Boards,panels,consoles,desks etc.. other than switching apparatus
9404	Mattress supports,articles of bedding,fitter with spring or not etc..
8512	Electrical lighting/signalling equipment(excludingarticles in 85.39)etc..
8528	Television receivers(video monitors,projectors),reproducing apparatus
8701	Tractors(other than tractors of heading 87.09)

Montenegro



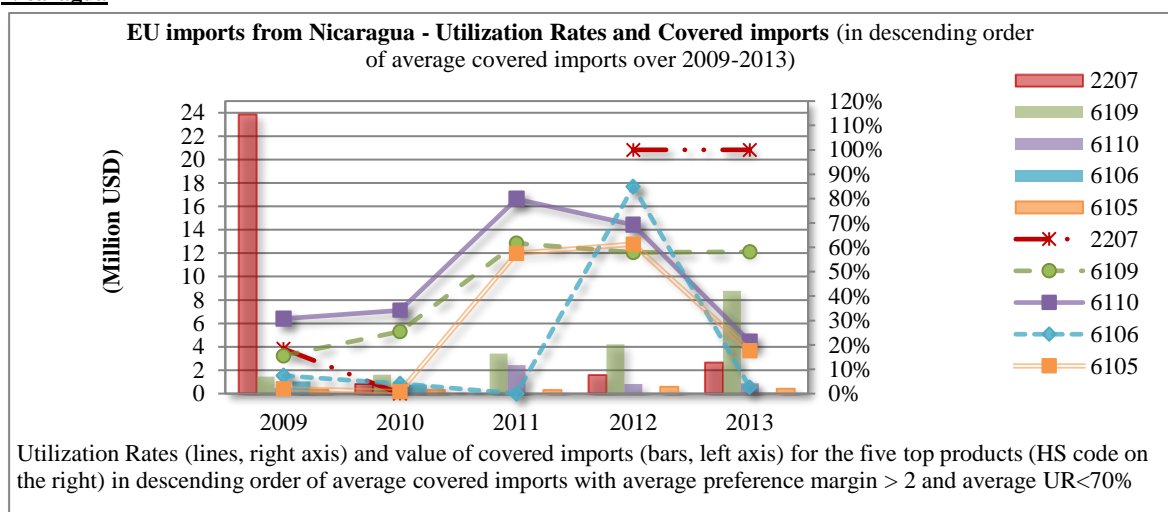
8703	Motor cars and other motor vehicles principally designed passengers
8483	Transmission shafts,cranks,clutches,sahft couplings(universal joints)
4415	Packing cases... of wood; cable-drums of wood; pallets, etc, of wood
4011	New pneumatic tyres, of rubber
8481	Tapes,valves,for pipes pressure reducing,thermostatically controlled valve

Turkey



0802	Other nuts, fresh or dried, nes
3907	Polyethers and epoxide resins; polyesters, in primary forms
8701	Tractors(other than tractors of heading 87.09)
5705	Other carpets and other textile floor coverings, nes
1904	Prepared foods obtained by the swelling or roasting of cereals or cereal products (for exam. corn flakes); cereals

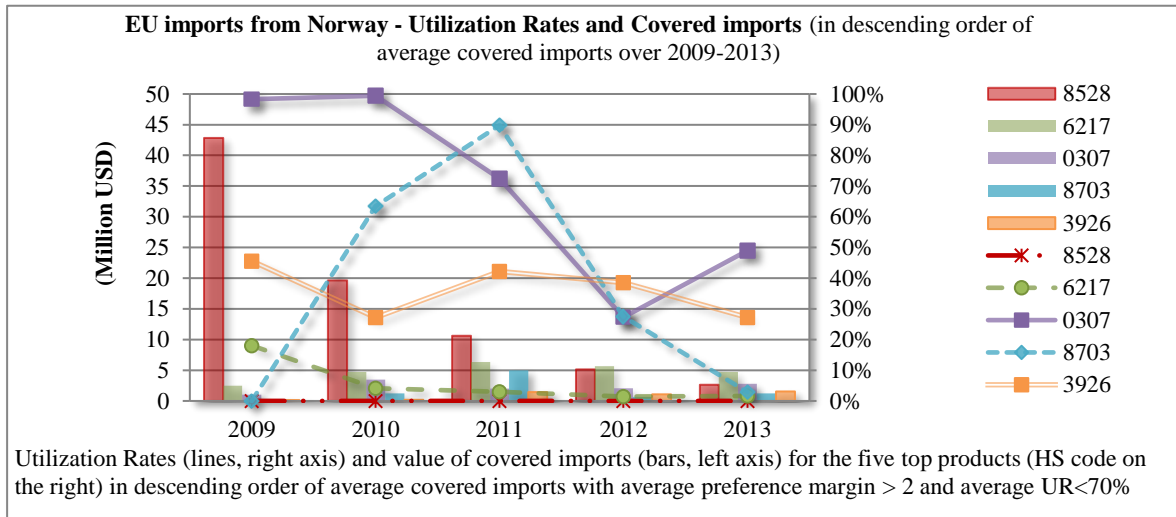
Nicaragua



Please note: Data for 2011 not available

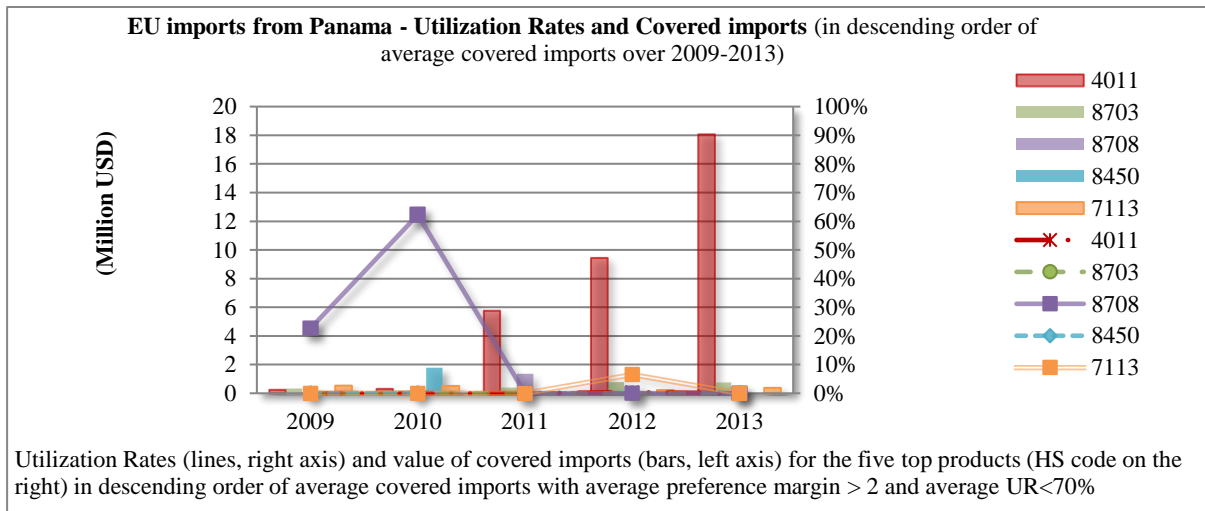
2207	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 % vol or higher; ethyl alcohol and other spirits
6109	T-shirts, singlets and other vests, knitted or crocheted
6110	Jerseys, pullovers, cardigans and similar articles, knitted or crocheted
6106	Women's or girls' blouses, etc, knitted or crocheted
6105	Men's or boys' shirts, knitted or crocheted

Norway



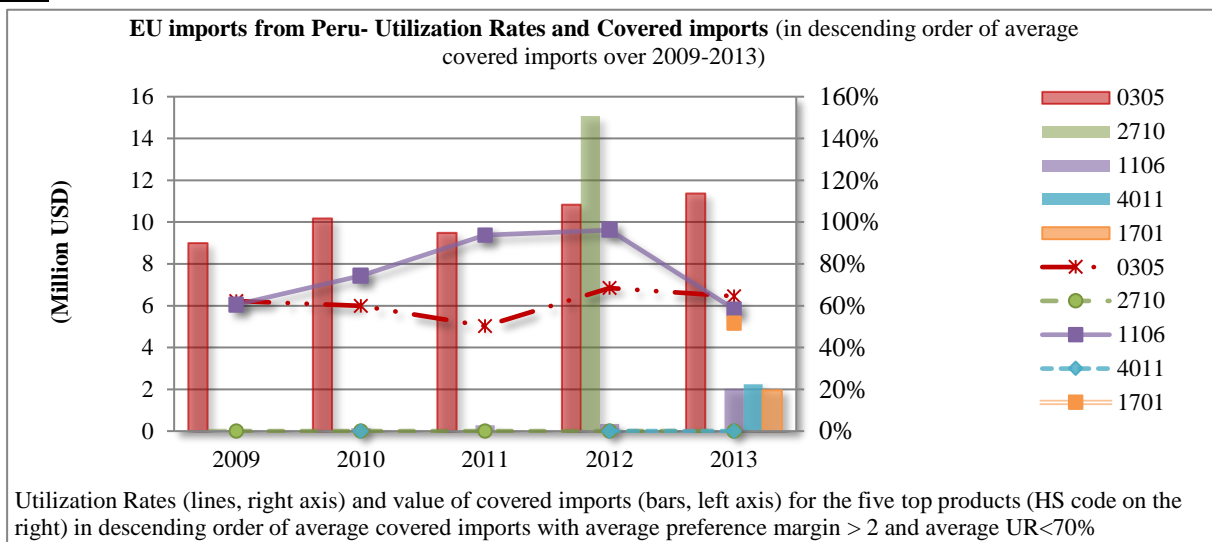
8528	Television receivers(video monitors,projectors),reproducing apparatus
6217	Other made up clothing accessories; parts of garments
0307	Molluscs and aquatic invertebrates, nes
8703	Motor cars and other motor vehicles principally designed passengers
3926	Other articles of plastics, nes

Panama



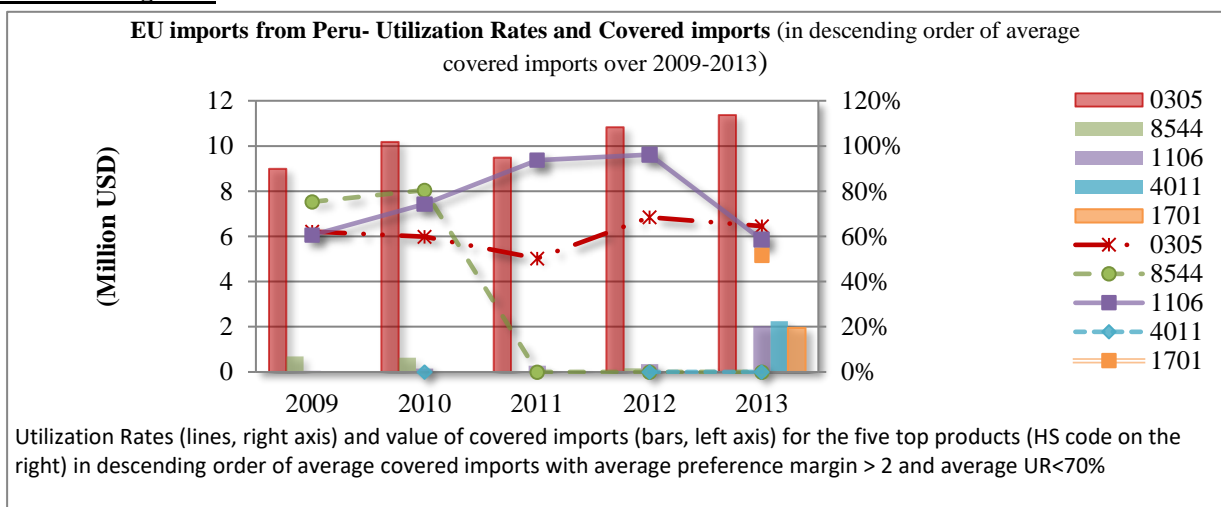
4011	New pneumatic tyres, of rubber
8703	Motor cars and other motor vehicles principally designed passengers
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05
8450	Household,laundry-type washing machines,including machines with dryer
7113	Jewelless and parts of precious metal,metal clad with precious metal

Peru



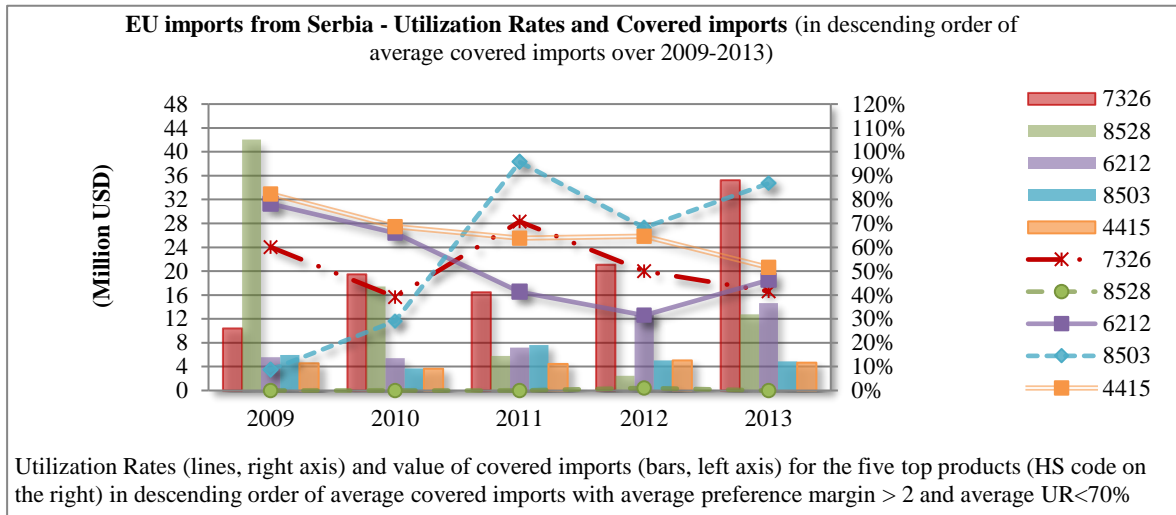
0305	Fish, salted, dried...; smoked fish; fish meal fit for human consumption
2710	Petroleum oils, etc. (excl. crude); preparations thereof, nes
1106	Flour and meal of the dried leguminous vegetables, sago, etc
4011	New pneumatic tyres, of rubber
1701	Cane or beet sugar and chemically pure sucrose, in solid form

Peru excluding HS27



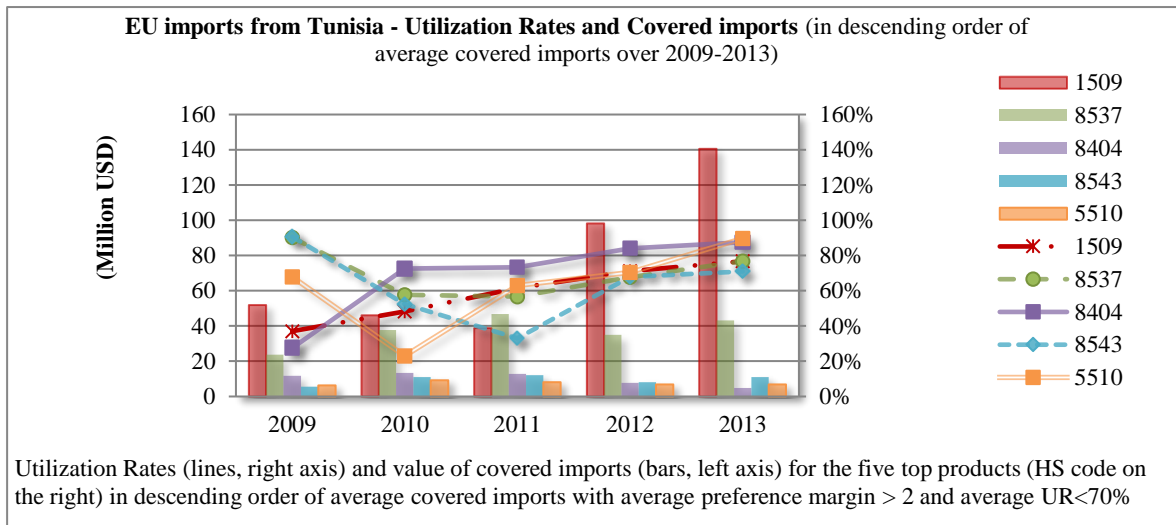
305	Fish, salted, dried...; smoked fish; fish meal fit for human consumption
8544	Insulated wire,cable,other insulated electric conductors;optical cables...
1106	Flour and meal of the dried leguminous vegetables, sago, etc
4011	New pneumatic tyres, of rubber
1701	Cane or beet sugar and chemically pure sucrose, in solid form

Serbia



7326	Other articles of iron or steel
8528	Television receivers(video monitors,projectors),reproducing apparatus
6212	Brassieres, girdles, corsets, braces, suspenders, garters, etc
8503	Parts suitable for use solely or principally with machines of 85.01-02
4415	Packing cases... of wood; cable-drums of wood; pallets, etc. of wood

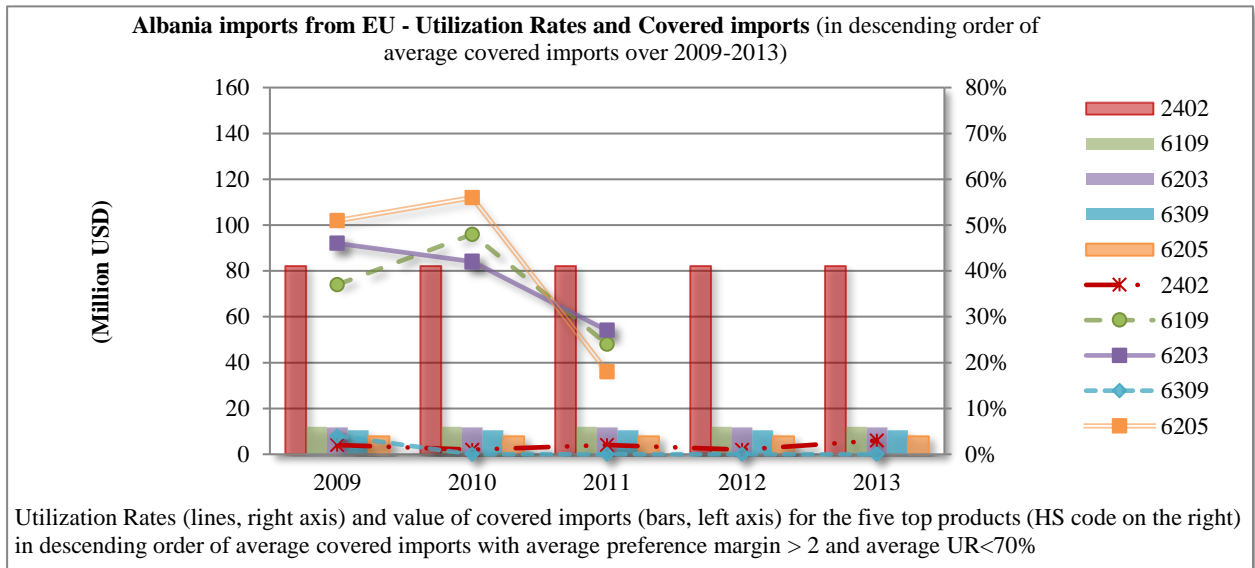
Tunisia



1509	Olive oil and its fractions
8537	Boards,panels,consoles,desks etc.. other than switching apparatus
8404	Auxiliary plant for use with boilers,condensers for steam or other units
8543	Electrical machines,apparatus with one functions not specified elsewhere
5510	Yarn of artificial staple fibres, not put up for retail sale

Annex II – Partners Imports from EU

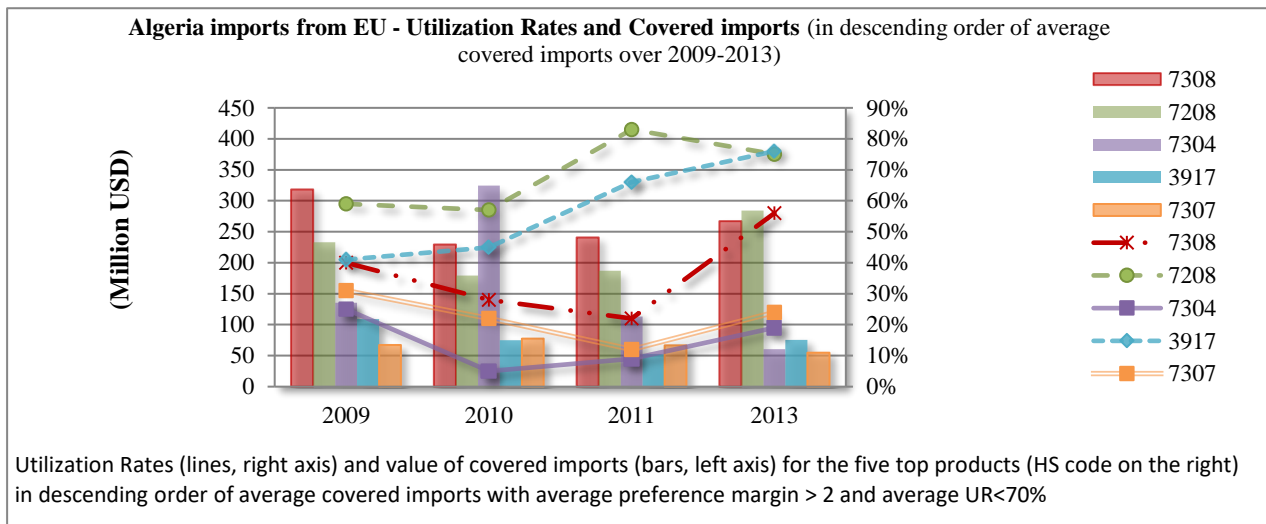
Albania



2402	Cigars, cigarillos, cigarettes, etc. of tobacco or tobacco substitutes
6109	T-shirts, singlets and other vests, knitted or crocheted
6204	Women's or girls' suits
6309	Worn clothing and other worn articles
6205	Men's or boys' shirts

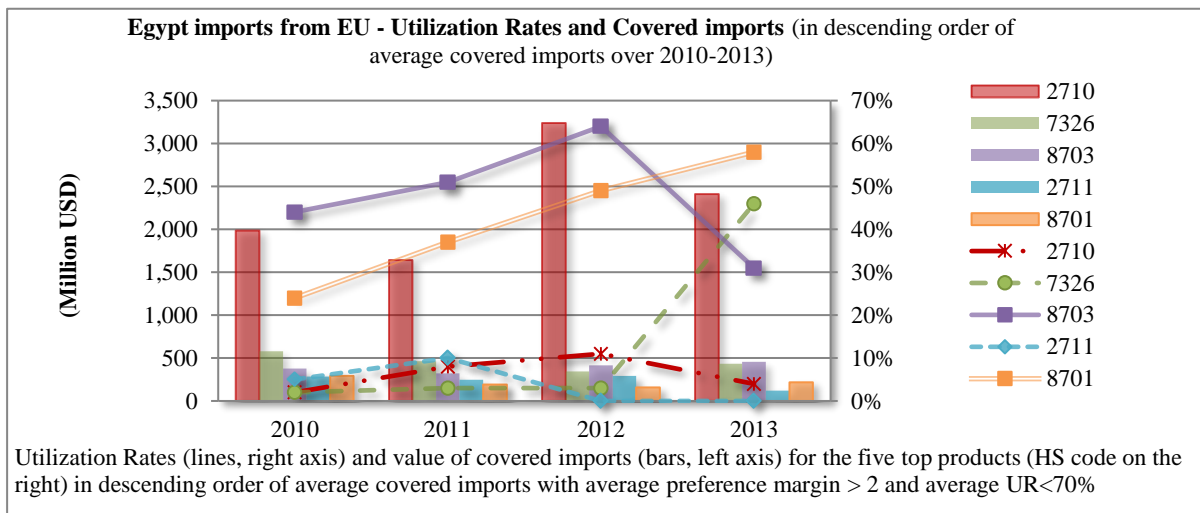
Please note: Data for 2011/2012/2013 related to HS6203/HS6109//6205 are not available

Algeria



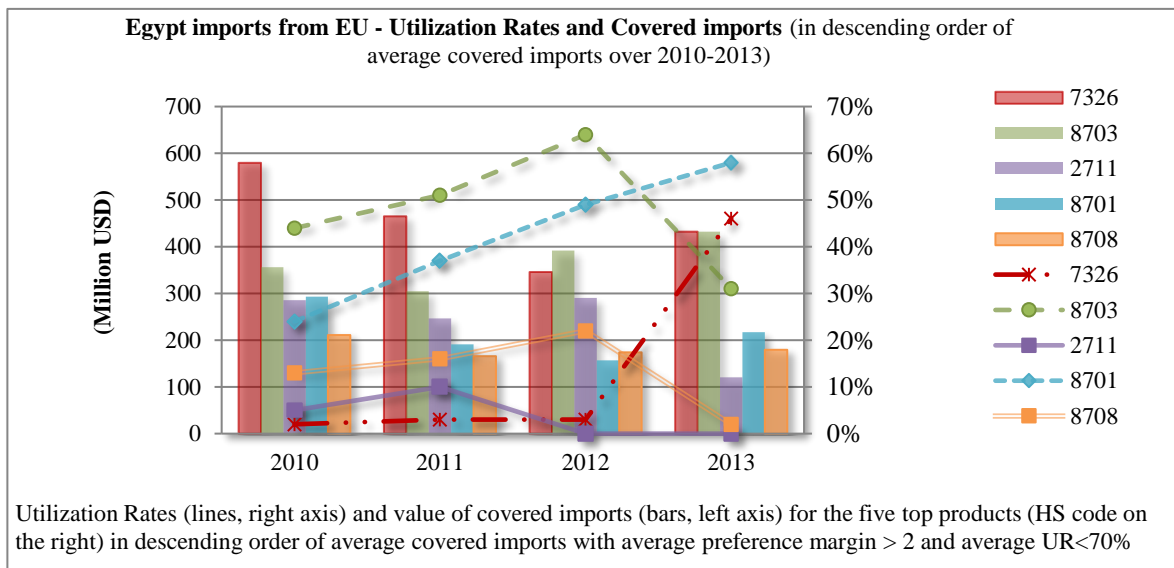
7308	Structures and parts of structures(bridges and bridges sections,etc.)
7208	Flat-rolled products of iron/non-alloy steel, of width >600mm, hot-rolled
7304	Tubes, pipes and hollow profiles, seamless, of iron or steel
3917	Tubes, pipes and hoses, and fittings therefor, of plastics
7307	Tubes or pipe fittings, of iron or steel

Egypt



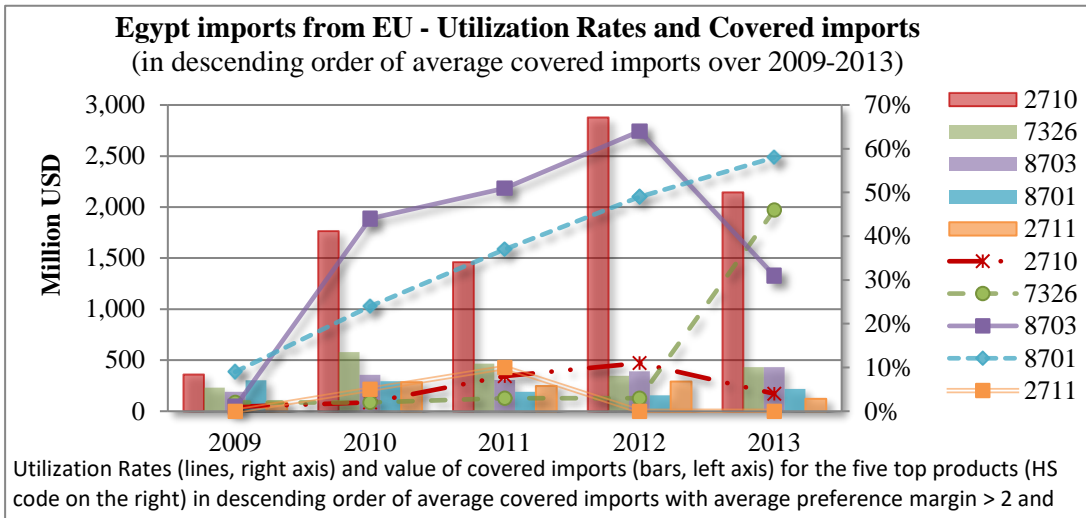
2710	Petroleum oils, etc. (excl. crude); preparations thereof, nes
7326	Other articles of iron or steel
8703	Motor cars and other motor vehicles principally designed passengers
2711	Petroleum gases and other gaseous hydrocarbons
8701	Tractors(other than tractors of heading 87.09)

Egypt excluding HS27

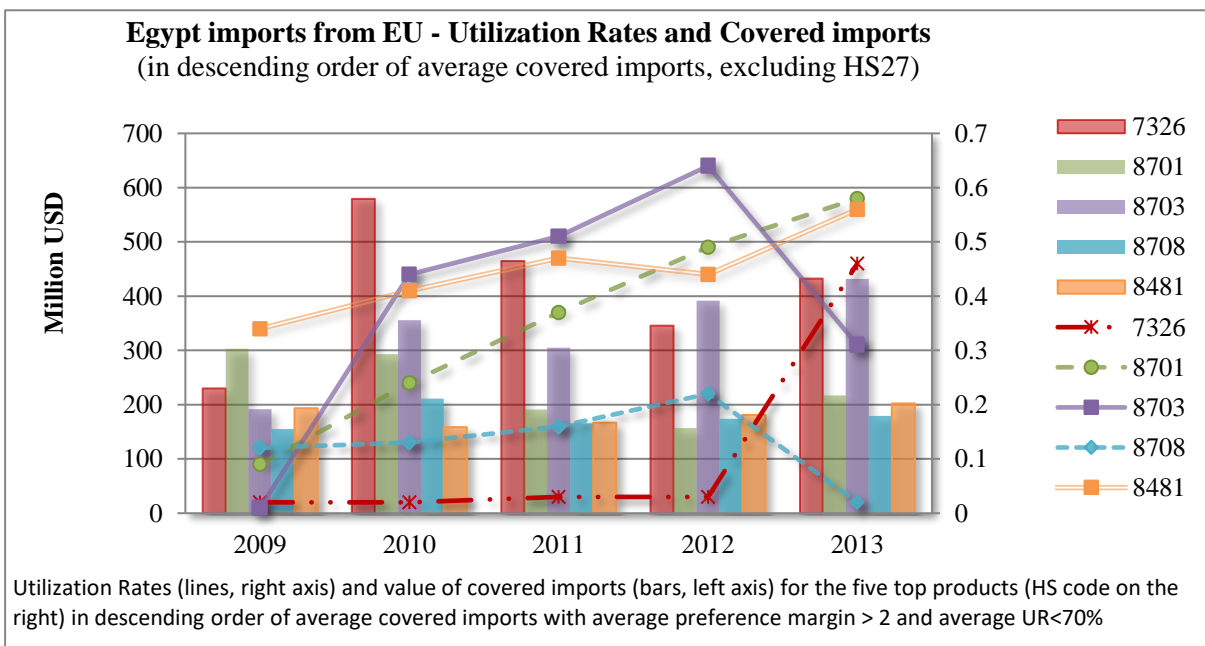


7326	Other articles of iron or steel
8703	Motor cars and other motor vehicles principally designed passengers
2711	Petroleum gases and other gaseous hydrocarbons
8701	Tractors(other than tractors of heading 87.09)
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05

Egypt Revised Version 26 August

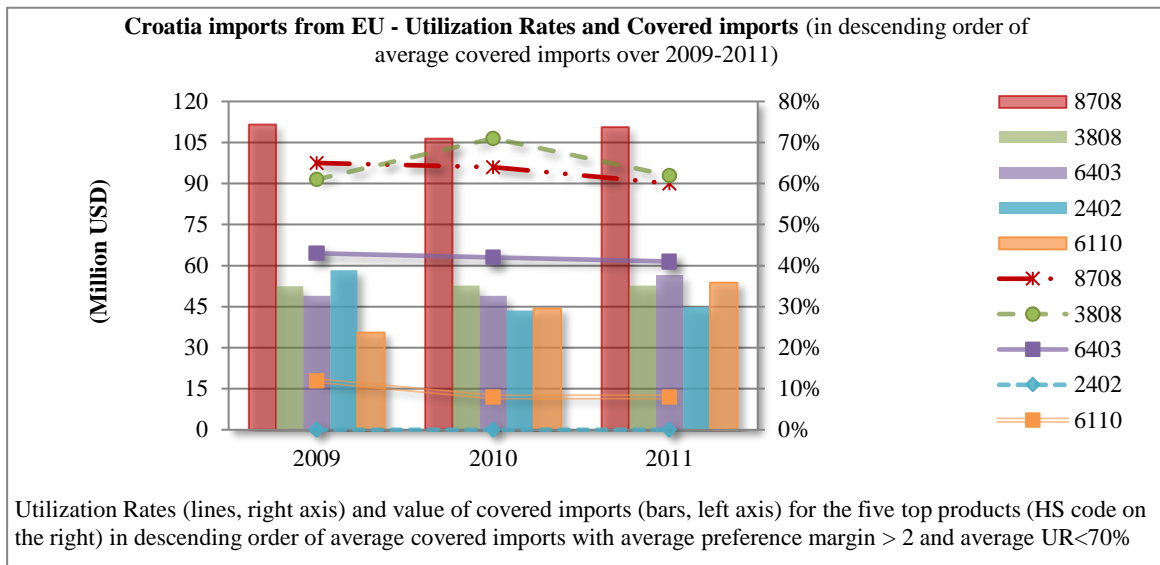


2710	Petroleum oils, etc, (excl. crude); preparations thereof, nes
7326	Other articles of iron or steel
8703	Motor cars and other motor vehicles principally designed passengers
8701	Tractors(other than tractors of heading 87.09)
2711	Petroleum gases and other gaseous hydrocarbons



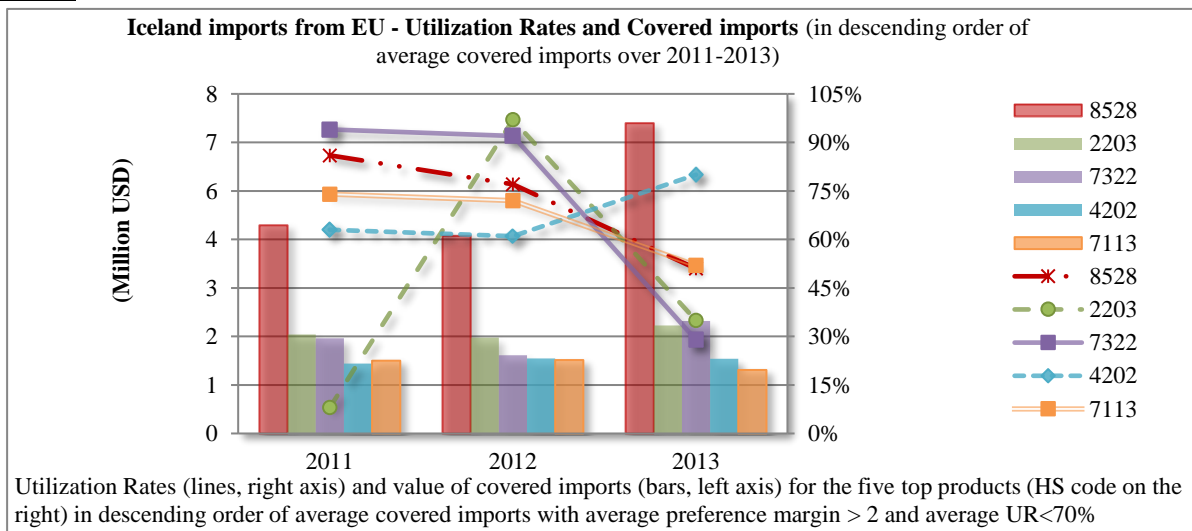
7326	Other articles of iron or steel
8701	Tractors(other than tractors of heading 87.09)
8703	Motor cars and other motor vehicles principally designed passengers
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05
8481	Tapes, valves, for pipes pressure reducing, thermostatically controlled valve

Croatia



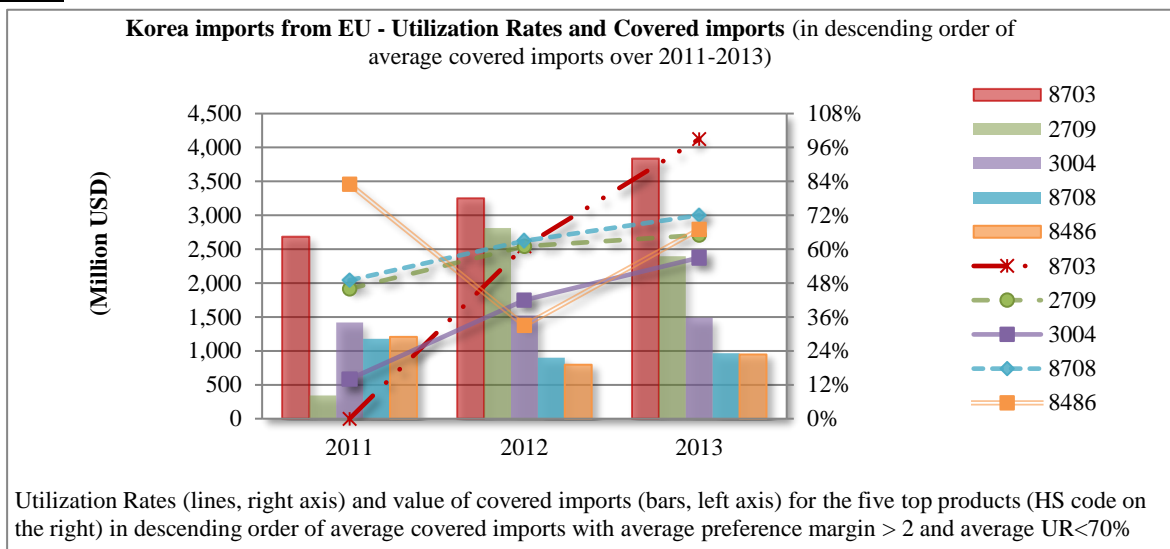
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05
3808	Insecticides, rodenticides... and similar products, for retail sale
6403	Footwear, with rubber, plastics, leather... soles, leather uppers
2402	Cigars, cigarillos, cigarettes, etc, of tobacco or tobacco substitutes
6110	Jerseys, pullovers, cardigans and similar articles, knitted or crocheted

Iceland



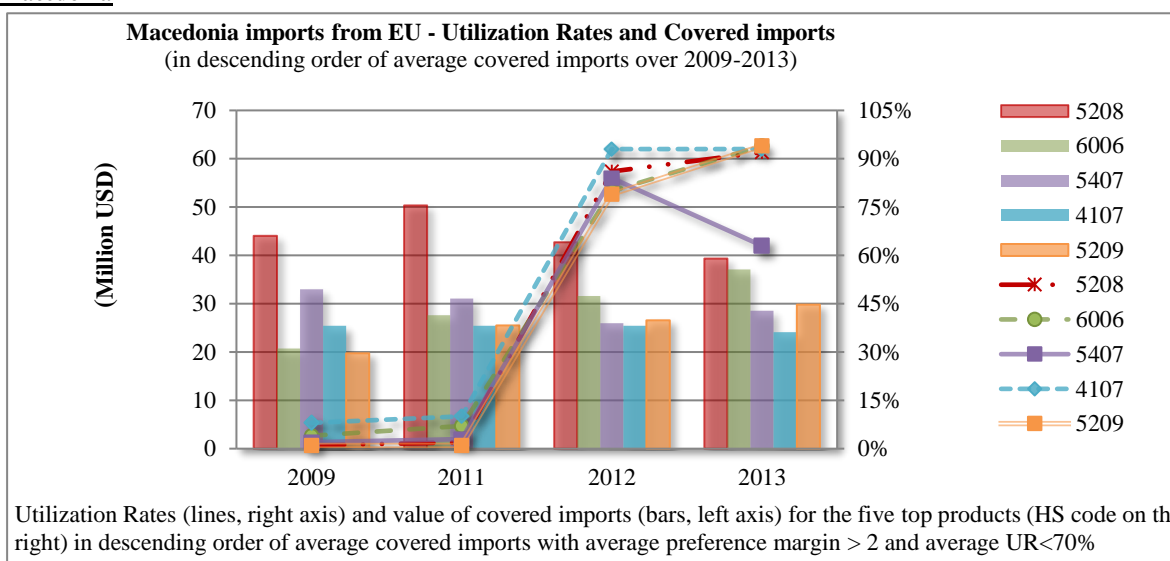
8528	Television receivers(video monitors,projectors),reproducing apparatus
2203	Beer made from malt
7322	Non electrical heating equipments,motor-driven fans,parts,of iron/steel
4202	Trunks, suit-cases...; handbags... and similar items of leather, etc
7113	Jeweltes and parts of precious metal,metal clad with precious metal

Korea



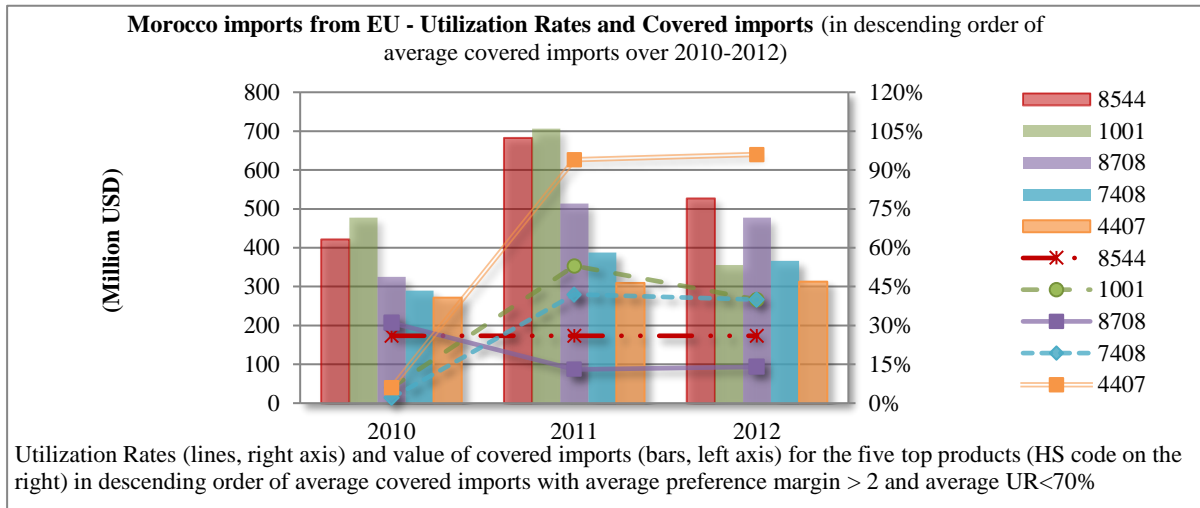
8703	Motor cars and other motor vehicles principally designed passengers
2709	Petroleum oils and oils obtained from bituminous minerals, crude
3004	Medicaments of mixed or unmixed products, for retail sale
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05
8486	No description provided

Macedonia



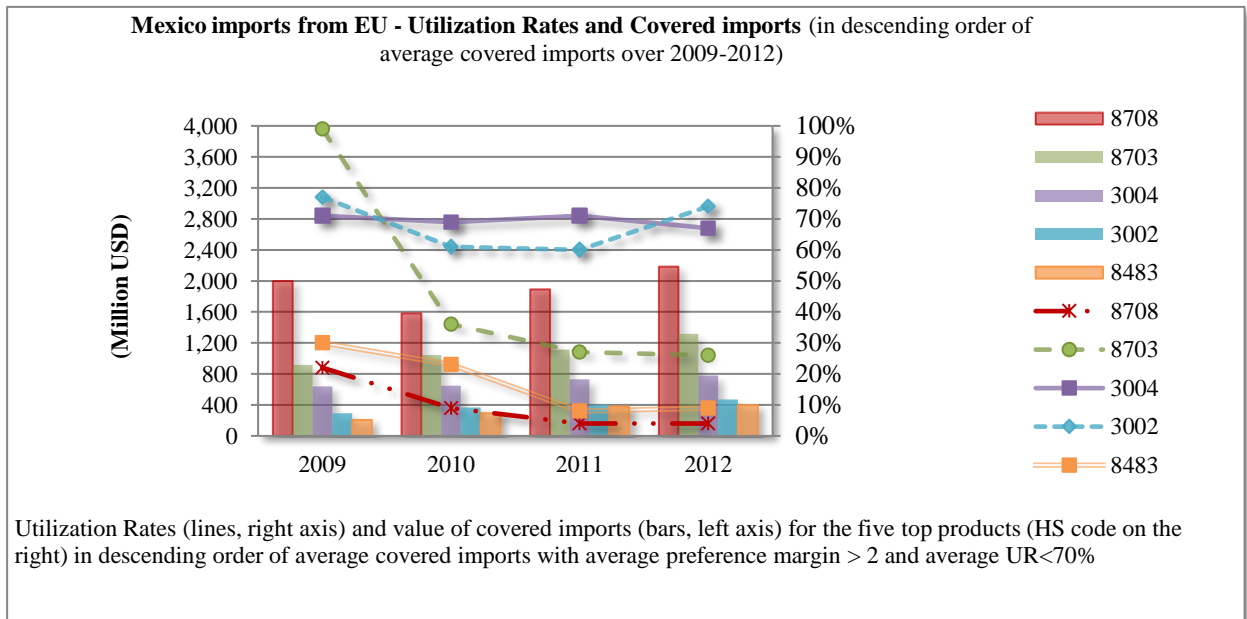
5208	Woven fabrics of cotton, with >=85% cotton, but <200g/m2
6006	No description provided
5407	Woven fabrics of synthetic filament yarn
4107	Leather of other animals, without hair on
5209	Woven fabrics of cotton, with >=85% cotton, >=200g/m2

Morocco



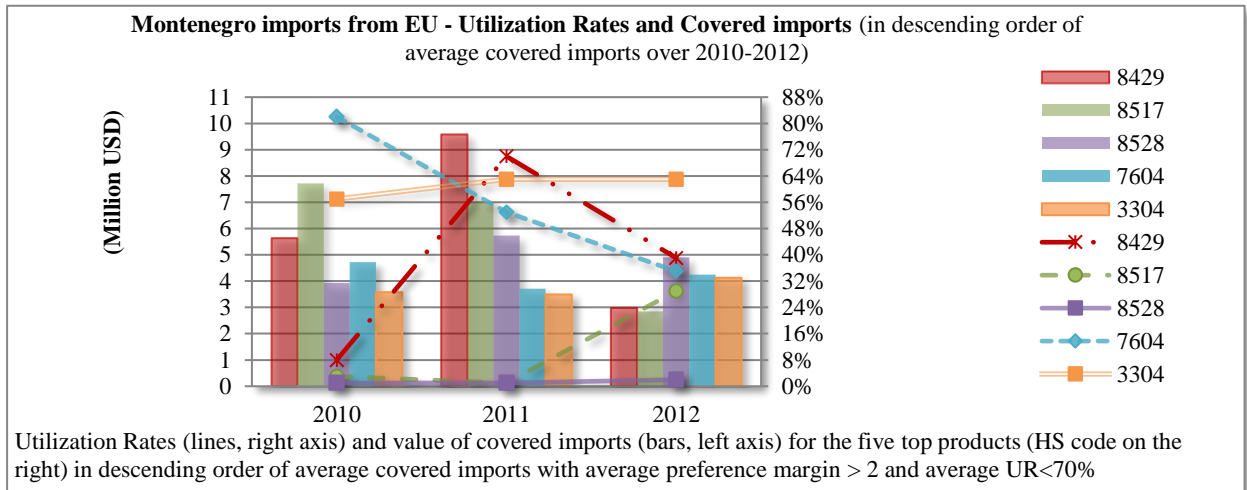
8544	Insulated wire,cable,other insulated electric conductors;optical cables...
1001	Wheat and meslin
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05
7408	Copper wire
4407	Wood sawn or chipped lengthwise, sliced or peeled, >6mm thick

Mexico



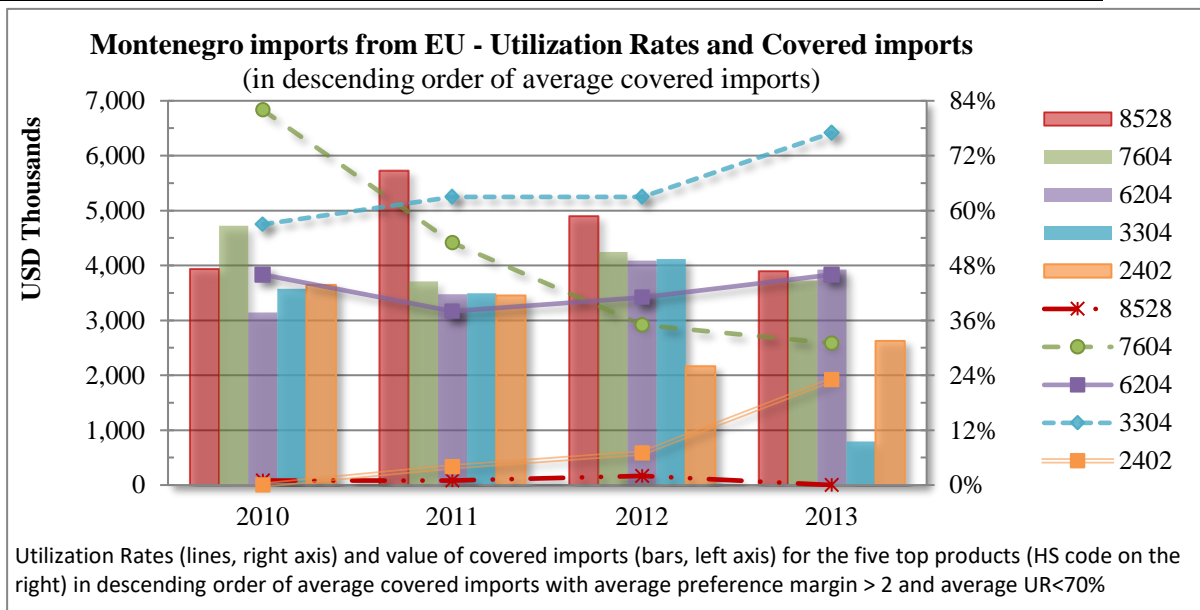
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05
8703	Motor cars and other motor vehicles principally designed passengers
3004	Medicaments of mixed or unmixed products, for retail sale
3002	Human blood; animal blood; antisera, etc; vaccines, toxins, etc
8483	Transmission shafts,cranks,clutches,sahft couplings(universal joints)

Montenegro



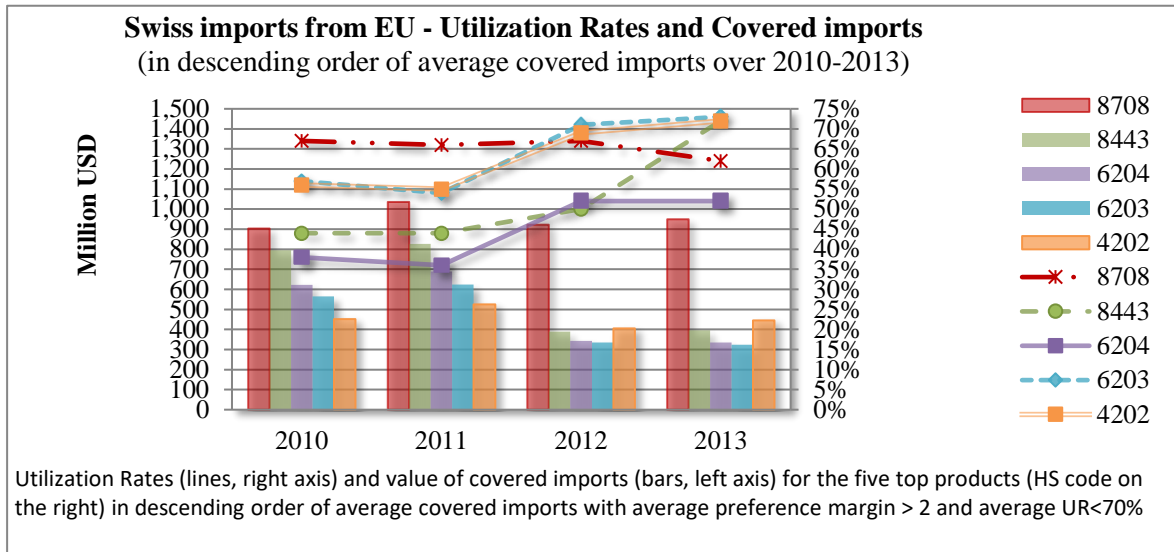
8429	Self-propelled bulldozers, graders, levellers, scrapers, excavators, shovels...
8517	Electrical telephonic, telegraphic, for carriers-current line system
8528	Television receivers (video monitors, projectors), reproducing apparatus
7604	Aluminium bars, rods and profiles
3304	Beauty, make-up, skin-care (incl. suntan), manicure... Preparations

Montenegro new version 26 August 2016 (some products became duty free in 2013, ie. dropped since PM=0)



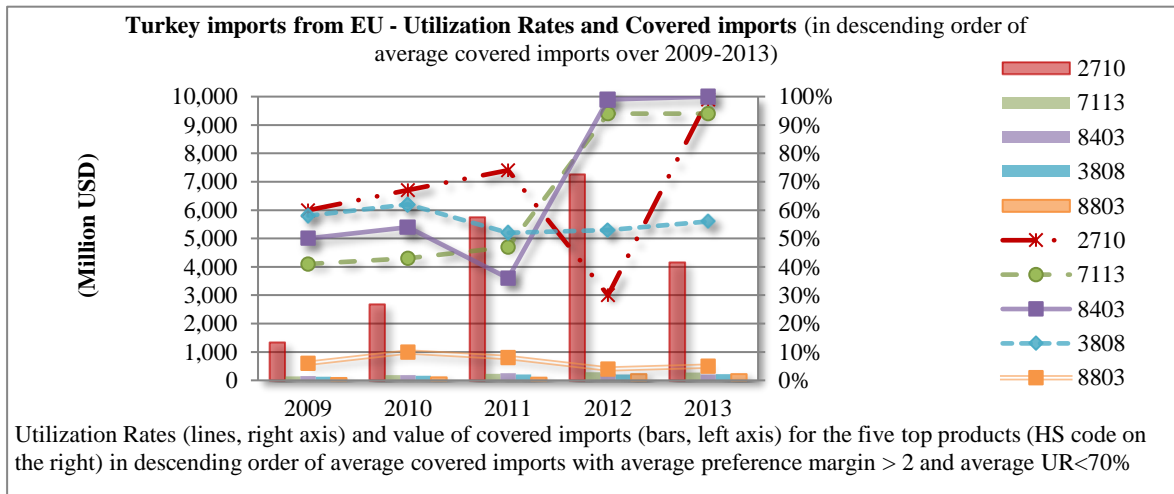
8528	Television receivers (video monitors, projectors), reproducing apparatus
7604	Aluminium bars, rods and profiles
6204	Women's or girls' suits, ensembles, jackets, dresses, skirts, etc
3304	Beauty, make-up, skin-care (incl. suntan), manicure... preparations
2402	Cigars, cigarillos, cigarettes, etc, of tobacco or tobacco substitutes

Switzerland



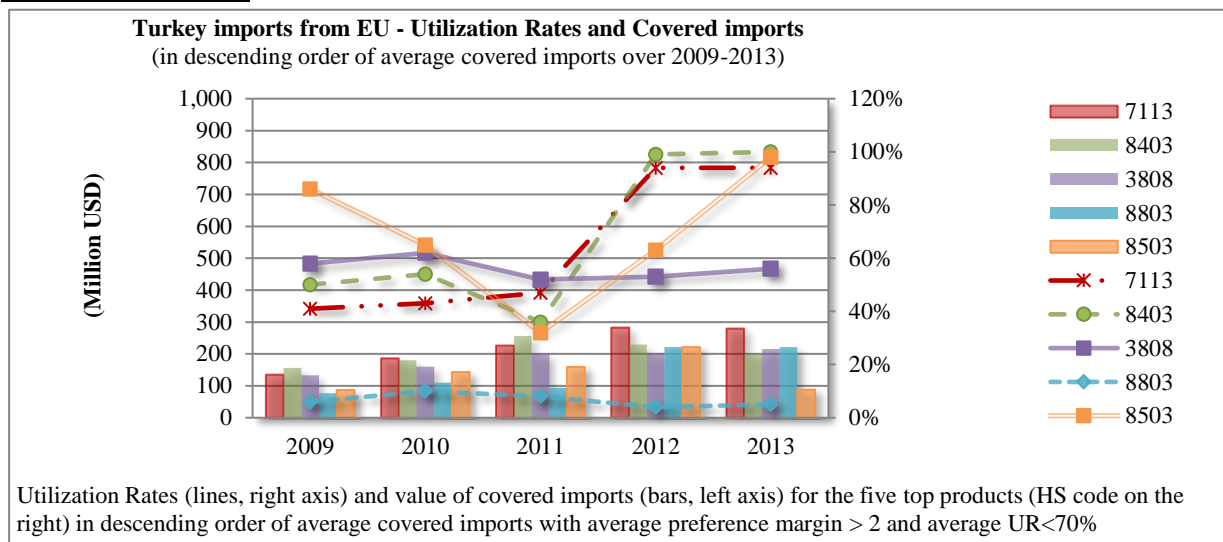
8708	Parts and accessories of the motor vehicles of headings 87.01 to 87.05
8443	Printing machinery, including ink-jet printing machines, other than those of heading No. 84.71; machines for uses anc
6204	Women's or girls' suits, ensembles, jackets, dresses, skirts, etc
6203	Men's or boys' suits, ensembles, jackets, blazers, trousers, etc
4202	Trunks, suit-cases...; handbags... and similar items of leather, etc

Turkey



2710	Petroleum oils, etc. (excl. crude); preparations thereof, nes
7113	Jewelles and parts of precious metal,metal clad with precious metal
8403	Central heating boilers other than those of heading 84.02
3808	Insecticides, rodenticides... and similar products, for retail sale
8803	Parts of goods of heading No. 88.01,88.02

Turkey excluding HS 27



7113	Jewelles and parts of precious metal,metal clad with precious metal
8403	Central heating boilers other than those of heading 84.02
3808	Insecticides, rodenticides... and similar products, for retail sale
8803	Parts of goods of heading No. 88.01,88.02
8503	Parts suitable for use solely or principally with machines of 85.01-02

Related table available on Dropbox:

https://www.dropbox.com/sh/4scpw7qqv3og6pw/AADAW3p9G1S-DkZQgn9J_U4Wa?dl=0

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