



**FURTHER EVIDENCE FROM UTILIZATION RATES:
UTILIZATION BY LDCs OF CHINA'S PREFERENCE**

SUBMISSION BY THE LDC GROUP

The following submission, dated 7 October 2019, is being circulated at the request of the delegation of Tanzania on behalf of the LDC Group.

1 BACKGROUND

1.1. The Nairobi Decision on Preferential Rules of Origin for LDCs 2015 established, for the first time, a set of multilaterally agreed guidelines to support LDCs to benefit from the preferential market access granted by a number of WTO members.

1.2. It is recalled that paragraph 4.3 of the Nairobi Decision provides as follows:

"4.3 Preferential rules of origin shall be notified as per the established procedures. In this regard, Members reaffirm their commitment to annually provide import data to the Secretariat as referred to Annex 1 of the PTA Transparency Mechanism, on the basis of which the Secretariat can calculate utilization rates, in accordance with modalities to be agreed upon by the CRO. Furthermore, the CRO shall develop a template for the notification of preferential rules of origin, to enhance transparency and promote a better understanding of the rules of origin applicable to imports from LDCs."

1.3. Four years later, most preference granting Members have notified their utilization rates that constitute a valuable tool to identify specific difficulties that LDC may face in complying with rules of origin, as highlighted in the presentation made by the LDC Group at the last CRO meeting applying UNCTAD's methodology.¹

1.4. Based on an analysis carried out at the tariff line level, the presentation demonstrated that utilization rates constitute an adequate measure of the effectiveness of preferential trade, reflecting, amongst other things, the different degrees of stringency of rules of origin.

1.5. It was recognized at the last CRO meeting that further steps to simplify origin rules and improve utilization shall be considered. WTO Members acknowledged that more research is needed to better understand the causes behind under-utilization of tariff preferences and identify specific issues.

1.6. In a note², preliminary insights have been put forward to understand the link between low Swiss utilization rates and rules of origin. The present note is the second contribution of the LDC Group and is the first attempt by the Group to analyse the recently released Chinese utilization rates (2016).

¹ See forthcoming UNCTAD's study *Drafting Rules of Origin*, July 2019.

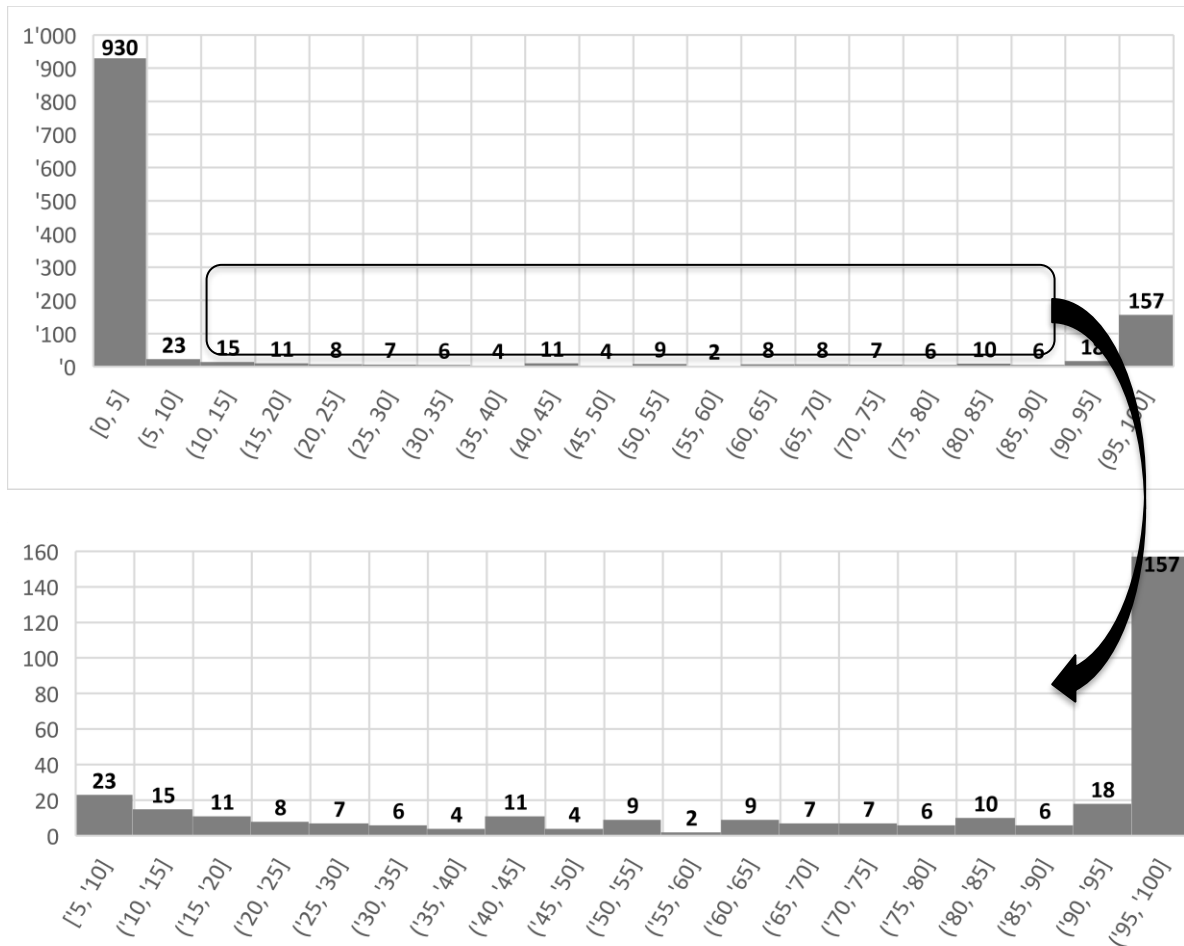
² See document G/RO/W/186.

2 THE CHINESE UTILIZATION RATES – OVERVIEW

2.1. Figure 1 below reports the full distribution of tariff lines over the utilization rates with covered³ imports from LDCs above USD 10,000. Chinese utilization rates appear to be relatively polarized around zero and (to a significant lower extent) around 100%. More specifically, in 2016, 70% (880 out of 1,250) of the tariff lines were reported to have zero utilization rate. This percentage remains unchanged (69%) when we consider a preference margin above 5%. This proportion increases to 74.4% when considering utilization rates between 0 and 5% (930 out of 1,250).

2.2. In contrast, 157 tariff lines (12.5% of the tariff lines) present a utilization rate between 95% and 100%. This frequency of high utilization rate is bigger than those of intermediate values of utilization rates between 5% and 95%, with frequency ranging between 2 and 23 tariff lines (see lower part of Figure 1. However, it is still far from the 74% (930 tariff line) at the lower level of the utilization rate distribution, with utilization rates between 0 and 5%. Therefore, the polarization exists and is heavily biased towards zero.

Figure 1 – Distribution of tariff lines over utilization rates values Imports from LDCs > USD 10,000



2.3. Strong variations of utilization rates are observed between LDCs. Figure 2 depicts utilization rates and imports from LDCs covered by preferential treatment with a value above USD 50 million. While some LDCs exhibit high utilization rates⁴, it is remarkable to observe that the five biggest LDC exporters to China - trade values between USD 626 million and USD 2 billion - all face difficulties to benefit from DFQF preferential treatment. Indeed, four of these five LDCs, namely Zambia;

³ Covered imports by the preferential scheme referred to as "eligible" in the Tariff Analysis Online (TAO) database.

⁴ The right half of the graph, except Madagascar and Mozambique with mitigated results, and Angola with a utilization rate of zero.

the Democratic Republic of Congo; Cambodia; and Myanmar report an utilization rate of zero. Bangladesh, the third biggest exporter to China in terms of covered imports only reaches 45%.

2.4. For the remaining LDCs with lower export values to China (Figure 3), the variation of utilization rates is even more important. A more disaggregated analysis is therefore needed to better understand the causes of such variations and the reasons for low utilization of large exporters (trading mostly in minerals that are in general wholly obtained products).

Figure 2 – Chinese Utilization Rates, Preference Margin and Eligible imports from LDCs Covered Imports > USD 50 million

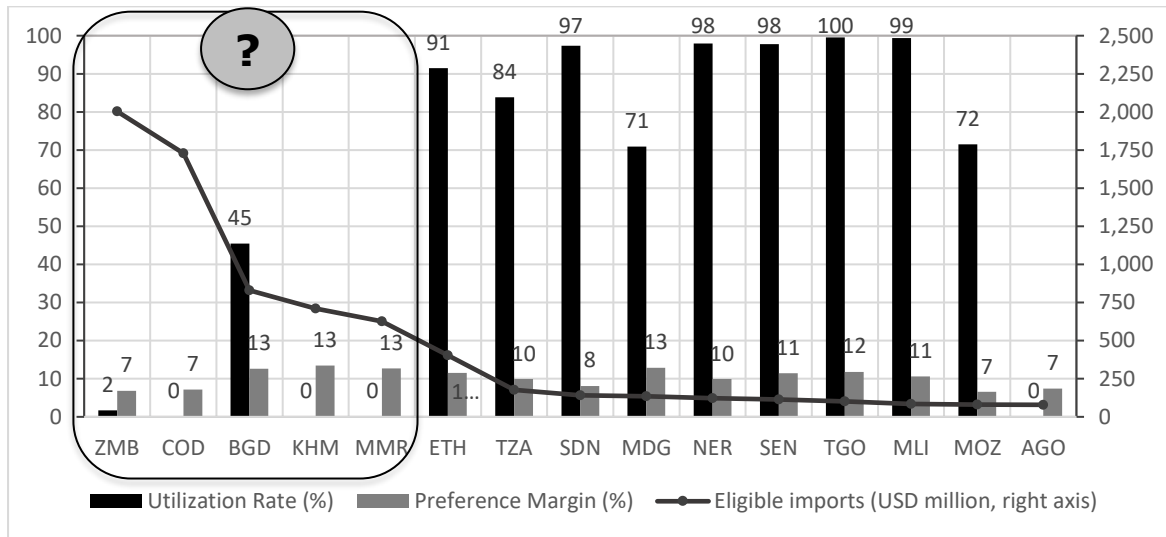
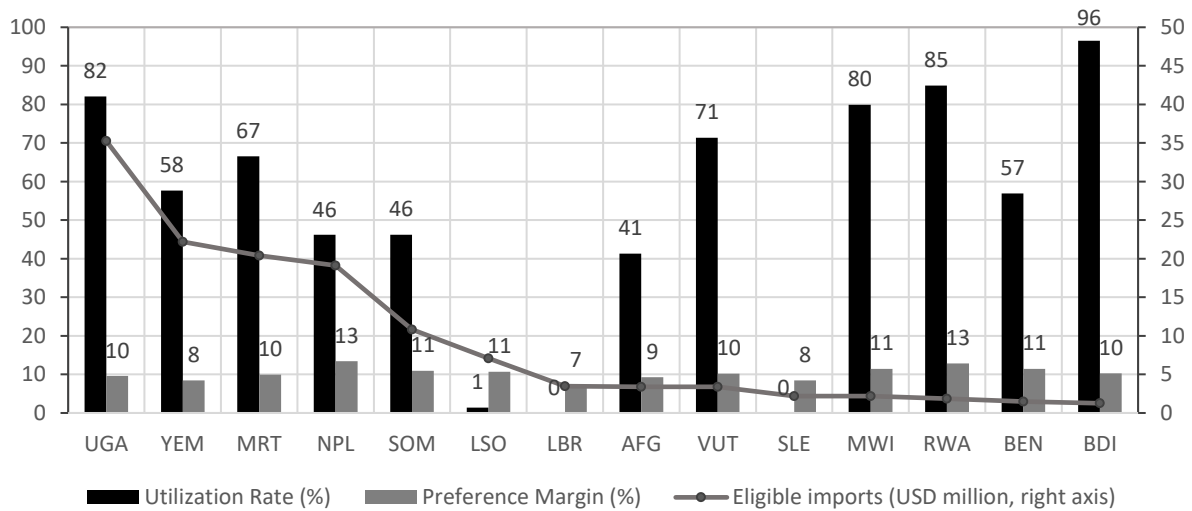


Figure 3 – Chinese Utilization Rates, Preference Margin and Eligible imports from LDCs USD 1 million < Covered Imports <= USD 50 million



2.5. Table 1 of the Annex reports the value of Chinese imports from LDC beneficiaries (column (1)), for tariff lines (column (2)) where the utilization rate (column (8)) defined as the value of imports entering under LDC/GSP (column (6)) divided by the value of imports covered by the preferential treatment (column (5)), lies below 70%. Observations for year 2016 are sorted in descending order of import values that are entering under MFN while covered by the preferential treatment (column (7)). It is important to keep in mind that all values reported in Table 1 are dutiable. The corresponding preference margin is reported under column (9).

2.6. Three main observations can be drawn from Table 1:

1. Given the low/zero utilization rates, a significant amount of imports from LDCs are entering China under the MFN rate. As an illustration, with a preferential margin of 35% the USD 73 million imports of precious/semi-precious stones from Myanmar (TL 71162000), could generate a saving of USD 26 million by using the preference.
2. In the Case of the Democratic Republic of Congo, despite the lower preferential margin (4%) the use of the preferential treatment could also trigger substantial duty savings given the extensive amount of trade. Combining the two tariff lines for cobalt (TL 81052010 and 81052090) the duty saving can be estimated to USD 30.2 million (4% of USD 755 million).
3. Low utilization rates in the case of China DFQF are not confined to a specific type of product but applies to a wide range of tariff lines, from raw materials, natural products, agricultural product (see sugar cane) to garments and other industrial products (motors, static converters, etc).

2.7. Table 2 of the Annex reports values of trade above USD 15 million from LDCs beneficiaries. However, other tariff lines-country pairs are affected by low utilization as shown in Table 2. Such table provides an initial overview for each LDC by reporting the tariff lines with the highest value of covered imports and a utilization rate below 70%.

2.8. For example, Somalia exported USD 4.7 million of Fish and crustacean of HS chapter 3 to China but did not receive the preferential treatment and therefore paid USD 560,000 of MFN duties. In Zambia, almost USD 2 billion of copper of HS chapter 74 have been exported to China in 2016. While the tariff line did not appear in the previous table due to the filtering (preference margin above 2%), the duty saving that could be generated by a full use of the preferential treatment amount to more than USD 35 million. It therefore clearly shows that low preferential margin do not necessarily imply low incentive to make use of the preference.

2.9. Finally, Table 3 of the Annex shows for each country the number of tariff lines for different levels of utilization rates: zero utilization, between zero and 50%, between 50% and 70%, and above 70%.

2.10. It can be noted that observations in the right part of the table are recorded for only 25 LDCs. Only these countries managed to export selected product making use of the preference in at least half of the cases (tariff lines with utilization rates above 50%).

3 CONCLUSION

3.1. This preliminary analysis of the utilization rates of China's DFQF shows that there are significant figures of low or zero utilization rate. In addition high variations of utilization rates are observed and pockets of low utilization should be further studied. The LDC Group is ready to engage in discussions with the Chinese delegation and customs authorities to identify the reasons and possible explanations for these patterns, with a view to seeking remedy at the earliest convenience.

ANNEX

Table 1 – China's Imports from LDCs (2016) - Tariff lines UR < 70%, sorted in descending value of imports entering under MFN (> USD 15 million), PM>2

WTO Member	Tariff line	Product Description	Imports (USD thousands)				Utilization Rate (%)	Preference Margin (%)
			Dutiable	Covered	LDC/GSP	MFN		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Dep. Rep. of Congo	81052010	Cobalt mattes and other intermediate products of cobalt metallurgy; unwrought; powders	703,700	703,700	0	703,700	0.0	4
Cambodia	43021100	Tanned or dressed furskins, unassembled,-- of mink	141,431	141,430	0	141,430	0.0	12
Cambodia	90139020	Liquid crystal devices; Parts and accessories	108,990	108,990	0	108,990	0.0	8
Myanmar	71162000	Articles of precious or semi-precious stones (natural, synthetic or reconstructed)	73,111	73,111	0	73,111	0.0	35
Bangladesh	62034290	Men's or boys' suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches of cotton	95,739	95,739	40,268	55,471	42.1	16
Dep. Rep. of Congo	81052090	Cobalt mattes and other intermediate products of cobalt metallurgy; unwrought; powders	51,343	51,343	0	51,343	0.0	4
Cambodia	35051000	Dextrins and other modified starches	50,770	50,770	0	50,770	0.0	12
Angola	27111200	Propane	50,671	50,671	0	50,671	0.0	5
Bangladesh	61091000	T-shirts, singlets and other vests, knitted or crocheted.- of cotton	78,065	78,065	31,917	46,147	40.9	14
Bangladesh	62046200	Women's or girls' suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib of cotton	43,999	43,999	6,122	37,878	13.9	16
Myanmar	12129300	Sugar cane	37,718	37,718	0	37,718	0.0	20
Cambodia	61091000	T-shirts, singlets and other vests, knitted or crocheted of cotton	25,519	25,519	0	25,519	0.0	14
Bangladesh	61102000	Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted of cotton	27,803	27,803	2,846	24,957	10.2	14
Myanmar	71031000	Precious stones (other than diamonds) and semi-precious stones unworked or simply sawn or roughly shaped	22,175	22,175	0	22,175	0.0	3
Cambodia	61112000	Babies' garments and clothing accessories, knitted or crocheted of cotton	21,856	21,856	0	21,856	0.0	14
Bangladesh	61103000	Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted man-made fibres	26,110	26,110	5,403	20,707	20.7	16
Cambodia	61103000	Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted.- of man-made fibres	20,275	20,275	33	20,242	0.2	16
Cambodia	61102000	Jerseys, pullovers, cardigans, waistcoats and similar articles, knitted or crocheted.- of cotton	19,852	19,852	0	19,852	0.0	14
Bangladesh	62052000	Men's or boys' shirts of cotton	35,019	35,019	15,251	19,768	43.6	16
Myanmar	71039910	Precious stones (other than diamonds) and semi-precious stones, -- other	19,767	19,767	0	19,767	0.0	8
Myanmar	90019090	Optical fibres and optical fibre bundles; optical fibre cables other than those of heading 85.44;- other	18,163	18,163	0	18,163	0.0	8
Cambodia	85044014	Static converters	17,372	17,372	0	17,372	0.0	7
Cambodia	85011099	Motors of an output not exceeding 37.5 W	16,859	16,859	0	16,859	0.0	9

Source: TAO database, 1 October 2019.

Table 2 - Chinese Imports from Least Developed Countries 2016 – LDC Beneficiaries First two HS sectors by country with UR<70, Sorted in descending order of eligible imports

Country	HS2	Description	Imports (USD thousands)				Utilization Rate (%)	Preference Margin (%)
			Dutiable	Covered	GSP/LDC	MFN		
Afghanistan	51	Wool, fine or coarse animal hair; horsehair yarn and woven fabric	969	969	0	969	0.0	9.0
	12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	251	251	0	251	0.0	6.0
Angola	27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	13,900,000	60,719	0	60,719	0.0	5.0
	25	Salt; sulphur; earths and stone; plastering materials, lime, cement	13,778	13,778	0	13,778	0.0	3.5
Bangladesh	62	Articles of apparel and clothing accessories, not knitted or crocheted	266,713	265,782	71,980	193,802	27.1	15.9
	61	Articles of apparel and clothing accessories, knitted or crocheted	203,225	202,692	49,578	153,114	24.5	15.7
Benin	14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	1,230	1,230	821	409	66.7	4.0
	52	Cotton	14,653	186	0	186	0.0	10.0
Burundi	25	Salt; sulphur; earths and stone; plastering materials, lime, cement	2	2	0	2	0.0	3.0
Cambodia	61	Articles of apparel and clothing accessories, knitted or crocheted	171,210	171,210	33	171,177	0.0	15.9
	43	Furskins and artificial fur; manufactures thereof	145,648	145,648	0	145,648	0.0	14.0
Central African Republic	5	Products of animal origin, not elsewhere specified or included	114	114	0	114	0.0	10.0
	85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	46	45	0	45	0.0	12.0
Chad	13	Lac; gums, resins and other vegetable saps and extracts	75	75	0	75	0.0	15.0
	25	Salt; sulphur; earths and stone; plastering materials, lime, cement	59	59	0	59	0.0	3.3
Comoros	33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	13	13	0	13	0.0	15.0
Dem. Rep. of Congo	74	Copper and articles thereof	971,358	971,358	0	971,358	0.0	2.0
	81	Other base metals; cermets; articles thereof	755,395	755,395	0	755,395	0.0	4.0
Djibouti	12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	18	18	0	18	0.0	10.0
	71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	12	12	0	12	0.0	3.0
Eritrea	25	Salt; sulphur; earths and stone; plastering materials, lime, cement	3	3	0	3	0.0	3.0
	62	Articles of apparel and clothing accessories, not knitted or crocheted	1	1	0	1	0.0	16.0
Ethiopia	41	Raw hides and skins (other than furskins) and leather	44,057	43,943	27,853	16,090	63.4	9.4
	9	Coffee, tea, maté and spices	7,356	7,356	4,759	2,598	64.7	12.7
Guinea	3	Fish and crustaceans, molluscs and other aquatic invertebrates	46	46	0	46	0.0	10.0
	92	Musical instruments; parts and accessories of such articles	22	22	0	22	0.0	17.0
Guinea-Bissau	61	Articles of apparel and clothing accessories, knitted or crocheted	1	1	0	1	0.0	16.0
Lesotho	85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	6,275	6,217	0	6,217	0.0	9.0
	52	Cotton	702	702	99	603	14.1	10.0
Liberia	74	Copper and articles thereof	2,911	2,911	0	2,911	0.0	1.0
	89	Ships, boats and floating structures	427	427	0	427	0.0	3.0

Country	HS2	Description	Imports (USD thousands)				Utilization Rate (%)	Preference Margin (%)
			Dutiable	Covered	GSP/LDC	MFN		
Madagascar	71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	8,154	8,154	52	8,102	0.6	15.0
	29	Organic chemicals	5,554	5,554	0	5,554	0.0	6.0
Malawi	9	Coffee, tea, maté and spices	718	718	296	422	41.2	11.5
	25	Salt; sulphur; earths and stone; plastering materials, lime, cement	9	9	0	9	0.0	3.0
Mali	8	Edible fruit and nuts; peel of citrus fruit or melons	73	73	0	73	0.0	20.0
	1	Live animals	40	30	0	30	0.0	10.0
Mauritania	3	Fish and crustaceans, molluscs and other aquatic invertebrates	8,938	8,938	4,539	4,399	50.8	11.8
	25	Salt; sulphur; earths and stone; plastering materials, lime, cement	20	20	0	20	0.0	3.0
Mozambique	72	Iron and steel	12,774	12,774	0	12,774	0.0	2.0
	74	Copper and articles thereof	4,597	4,597	0	4,597	0.0	2.0
Myanmar	74	Copper and articles thereof	130,227	130,227	0	130,227	0.0	4.5
	72	Iron and steel	127,610	127,610	0	127,610	0.0	2.0
Nepal	90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	3,675	3,675	0	3,675	0.0	5.5
	83	Miscellaneous articles of base metal	5,686	5,686	2,983	2,702	52.5	12.0
Niger	71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	621	621	0	621	0.0	27.5
	40	Rubber and articles thereof	31	31	0	31	0.0	15.0
Rwanda	9	Coffee, tea, maté and spices	240	240	59	181	24.5	12.7
	12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	52	52	0	52	0.0	30.0
Senegal	41	Raw hides and skins (other than furskins) and leather	86	86	0	86	0.0	14.0
	39	Plastics and articles thereof	47	47	0	47	0.0	8.0
Sierra Leone	71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	1,903	1,903	0	1,903	0.0	3.0
	85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	190	117	0	117	0.0	8.6
Somalia	3	Fish and crustaceans, molluscs and other aquatic invertebrates	4,705	4,705	0	4,705	0.0	12.0
	41	Raw hides and skins (other than furskins) and leather	994	994	64	930	6.5	14.0
Sudan	13	Lac; gums, resins and other vegetable saps and extracts	933	933	586	347	62.8	9.0
	74	Copper and articles thereof	142	142	0	142	0.0	1.0
Tanzania	74	Copper and articles thereof	12,173	12,173	0	12,173	0.0	1.8
	53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	17,610	17,610	11,831	5,780	67.2	5.0
Timor-Leste	9	Coffee, tea, maté and spices	94	94	0	94	0.0	8.0
	14	Vegetable plaiting materials; vegetable products not elsewhere specified or included	20	20	0	20	0.0	15.0
Togo	25	Salt; sulphur; earths and stone; plastering materials, lime, cement	4	4	0	4	0.0	3.0
	83	Miscellaneous articles of base metal	3	3	0	3	0.0	8.0
Uganda	41	Raw hides and skins (other than furskins) and leather	18,073	18,073	12,206	5,867	67.5	11.5
	5	Products of animal origin, not elsewhere specified or included	302	302	36	266	11.9	10.0
Vanuatu	12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	172	172	0	172	0.0	8.0

Country	HS2	Description	Imports (USD thousands)				Utilization Rate (%)	Preference Margin (%)
			Dutiable	Covered	GSP/LDC	MFN		
	5	Products of animal origin, not elsewhere specified or included	99	99	0	99	0.0	12.0
Yemen	74	Copper and articles thereof	8,559	8,559	0	8,559	0.0	1.0
	3	Fish and crustaceans, molluscs and other aquatic invertebrates	426	426	0	426	0.0	10.0
Zambia	74	Copper and articles thereof	1,958,895	1,958,895	0	1,958,895	0.0	1.8
	25	Salt; sulphur; earths and stone; plastering materials, lime, cement	459	459	0	459	0.0	4.0

Source: TAO database, 1 October 2019.

Table 3 – Number of tariff lines and trade values over utilization rates categories

Country	UR = 0			0 < UR < 50			50 < UR < 70			UR > 70		
	#TL	Covered	PM	#TL	Covered	PM	#TL	Covered	PM	#TL	Covered	PM
Zambia	46	1,663,314	30	1	222	3				4	39,934	7
Dem. Rep. of Congo	32	703,700	20									
Cambodia	480	141,430	45	1	20,275	16						
Myanmar	352	130,227	35	5	5,875	15						
Angola	20	50,671	35									
Mozambique	37	12,774	14							11	37,700	16
Bangladesh	254	8,831	25	92	95,739	20	3	10,320	17	45	69,734	35
Lesotho	16	6,190	17							1	99	10
Madagascar	167	5,552	35	14	5,047	17	4	4,172	17	19	81,827	15
Yemen	20	5,234	35	1	342	3				3	12,200	6
Tanzania	66	5,040	45	2	330	10	4	17,610	15	18	113,772	35
Somalia	14	4,705	35	1	962	14				1	4,931	10
Mauritania	9	4,166	17							13	10,529	15
Nepal	131	3,672	35	48	291	24	11	5,628	20	109	1,468	35
Liberia	11	2,911	20									
Sierra Leone	66	1,903	16									
Niger	26	615	35							1	121,619	10
Ethiopia	84	384	25	1	1,650	5	5	19,061	14	23	324,283	24
Afghanistan	43	365	20							1	1,739	6
Sudan	31	201	17	2	422	10	1	109	14	12	120,465	15
Benin	9	186	20				1	1,230	4	1	17	20
Rwanda	14	181	35							7	1,114	17
Vanuatu	4	172	15	1	1,000	12				1	2,109	10
Central African Republic	7	114	30									
Timor-Leste	15	94	24							1	104	30
Senegal	38	86	30	1	1,401	17				19	97,104	15
Chad	14	75	30									
Mali	26	73	30							4	84,364	15
Uganda	48	62	20	2	298	20	3	3,986	14	9	12,816	15
Guinea	22	46	24									
Djibouti	12	18	16							1	89	14
Comoros	1	13	15									
Malawi	9	9	20	1	717	15				3	1,068	15
Togo	6	4	24							4	92,417	20
Burundi	1	2	3							3	1,070	15
Eritrea	4	2	16									
Guinea-Bissau	1	1	16									

Source: TAO database, 1 October 2019