

**COMPULSORY ORIGIN MARKING
RESEARCH**

Full Report (Phase 1 and 2)

MARCH 2015

BIS

Compulsory Origin Marking research

Full report (Phase 1 and 2)

Report Name	Origin Marking research full report – phases 1 and 2
Prepared for	BIS
Authors	John Fawcett
Version	Final – February 2015



DATABUILD
Research & Solutions



Consider the environment. Please do not print this document or related documents unless necessary, or print in black and white if possible.

Contents

Executive summary 5

Key 11

1 Introduction 14

1.1	Context	14
1.2	Study objectives	18
1.3	Summary of approach	18
1.4	Literature review: key findings	19
1.4.1	What are the costs and benefits of introducing a compulsory origin mark in the UK?	19
1.4.2	Value of costs and benefits	22
1.4.3	Benefits	23
1.5	Phase 2 business participant profile	24
1.6	Observations from recruiting phase 2 participants	25

2 Interaction with Origin Marking 29

2.1	Understanding of current Origin Marking rules	29
2.2	How well Compulsory Origin Marking would fit existing practices ...	31

3 Benefits of Compulsory Origin Marking 33

3.1	Hypothetical benefits explored	34
3.2	Expectation of benefits	35
3.2.1	Consumer benefits	35
3.2.2	Business benefits	36
3.2.3	Enforcement agency benefits	37
3.3	Barriers to achieving benefits	37
3.3.1	Consumer interest	38
3.3.2	Compulsory Origin Marking information.....	39
3.3.3	Level of enforcement	40
3.3.4	Defining Country Of Origin.....	42
3.3.5	Country Of Origin variance	42

4 Costs of Compulsory Origin Marking 43

4.1	Hypothetical costs explored	43
4.2	Business costs	46
4.2.1	Overall recognition.....	46
4.2.2	Costs to ensure compliance	47
4.2.3	Ongoing administration costs	50
4.2.4	Longer term effects.....	51
4.2.5	Overall costs and extrapolation to the UK.....	53
4.3	Enforcement costs	55
4.4	Consumer costs	56
4.5	Voluntary origin marking.....	56

5 Appendix A: Full costs table 58

6 Appendix B: Bibliography 61

Acknowledgements

The authors are very grateful for the time given and contributions provided by businesses, enforcement agency and wider stakeholder representatives throughout this research.

Particular thanks are due to the trade associations that promoted the research to their members and encouraged submissions to Databuild for inclusion in the evidence base.

Executive summary

The Department of Business, Innovation and Skills (BIS), wanted to carry out a robust and evidence-based study into the costs and benefits to the UK of including a provision of Compulsory Origin Marking (COM) within the Consumer Product Safety Regulations.

Our approach was informed by a literature review, wider evidence from which is included in this report where applicable. Interviews were conducted with stakeholder organisations and businesses across sectors selected to provide diversity in terms of product manufacturing process, product complexity and existing compliance requirements:

- Ceramics (with a focus upon tableware and giftware);
- Consumer electronics (with a focus upon audio equipment and smart phones);
- Motor vehicles (with a focus upon cars);
- Toys.

This report is based upon interviews with 12 wider stakeholders (e.g. trade associations), 9 enforcement agency representatives and 32 businesses¹:

Engagement with Origin Marking

There is no existing requirement for COM in the EU or UK. Any company is free to origin mark their products; if companies are involved in a voluntary origin mark scheme, the requirement is that the origin mark should not be misleading.

The majority of businesses responding to the research do already export to markets with COM requirements and therefore comply with COM requirements in the countries to which they export². This meant that in general these businesses were fairly confident that they understand *current* OM requirements, albeit some expressed

¹ The sample included several very large and global brands and trade associations representing thousands of businesses.

² Export markets mentioned included Europe, the US, Canada, Japan, Australia, New Zealand, South Korea, and China. Several of the very large companies and brands covered in the study have global markets.

uncertainties about the precise requirements of the proposed COM and what compliance might mean for them in terms of costs. The origin laws underpinning the COM requirements currently proposed by the EU differ from other jurisdictions e.g. non-preferential rules of origin between the USA and EU are not harmonised.

Even where they are not compelled to state Country of Origin (COO), some businesses still do so on a voluntary basis as they believe it strengthens their brand and consequently sales. This is particularly the case in sectors where 'Made in the UK' is perceived to be a hallmark of quality e.g. ceramics.

A minority of businesses interviewed in the study do not currently place COO on their products and these businesses tended to be less confident about COM rules and how these might apply if they were introduced (whether on a voluntary or mandatory basis). It is difficult to be precise about the proportion of UK SMEs that might have origin marking responsibilities under the proposed regulation and that also have experience of exporting to markets which already have COM. However, estimates indicate that the latter is unlikely to be more than 15% and probably much lower.

Several respondents erroneously seemed to feel that COM might not apply to them because their supply chain is entirely within the UK. This – coupled with the high proportion of businesses that did not participate in the research – might indicate that a large proportion of (particularly small) UK businesses are not currently aware of or prepared for COM. Care is needed in both interpreting this apparent indifference to the COM proposals, but also in assuming the extent to which those willing to participate in the study are typical of the wider, less engaged business population in terms of their attitudes and knowledge levels.

Businesses did not have a shared view of the extent to which COM would 'complement' either voluntary requirements or the compulsory requirements of states outside the EU. Some businesses felt that the proposed EU COM requirements replicated their current practice on OM and would therefore be a complementary and a useful reinforcement of those. Other businesses viewed the proposals as a duplication of existing practices which would add nothing except potentially an additional layer of bureaucracy.

Benefits of COM

The stated aim of the draft regulation and inclusion of COM is to enhance consumer safety. Overall, this key benefit – as well as the secondary aim of tackling and reducing counterfeiting - was not recognised by respondents. This included those who already use an origin mark, either on a voluntary basis or to export to markets where it is currently compulsory. Pertinent to Consumer Product Safety Regulations, respondents were not able to discern a link between the requirement for a ‘Made in...’ label on a product / packaging and improved safety, nor do they think the requirement would add at all to existing product safety regimes.

Whilst this view was common across business and stakeholder profiles, those in the toys, electronics and cars sector in particular highlighted the strict safety demands of current regulations governing their products (e.g. the Toy Safety Directive) and so found it even more implausible that adding an OM would add any value.

One benefit acknowledged by several respondents was the potential for a country’s positive reputation in a specific product category to generate sales for businesses using that COO *amongst a minority of consumers who purchase on this basis*. However, it was pointed out that where this is the case, businesses can – and will already tend to – utilise voluntary COO labelling schemes i.e. this was really a benefit of OM in general rather than the introduction of a compulsory element.

COM introduces the potential advantage for some businesses of forcing their competitors to make their COO clear, so leading to a shift in market share. However, less than a quarter of business respondents thought that COM would benefit them in that way and only one could quantify this, estimating a 1-2% improvement in sales through winning business from competitors with less favoured COOs. Even those in the ceramics sector, where several respondents emphasised the strength of the ‘Made in the UK’ reputation, were no more or less likely to recognise increased sales as a benefit of COM.

Responses from the organisations interviewed indicated that delivery of any added value from *compulsory* OM (either to counterfeiting levels or marketing advantage) would only arise if there were:

- A much more informed and COO-motivated consumer market
- A much enhanced inspection and enforcement regime
- According to several businesses, alterations to the current rules around how COO is defined in some product categories.

Costs of COM

On the basis that COM was not seen by most respondents as likely to generate any significant benefits (at least without an unlikely transformation of consumer priorities and enforcement), a further key question was whether it would lead to any significant detrimental effects.

The majority of business respondents felt that some level of initial cost would be incurred due to COM, as well as some level of ongoing monitoring cost. Most felt such costs would be marginal for their business (i.e. generally estimated at 1%, or less than 1%, of turnover). The expected scale varied, yet if an average of 1% of turnover was applied as the average cost amongst businesses that could be affected by COM, this would equate to approximately €400m (largely as a one-off cost).

For businesses, the extent to which COM would create costs for them depended upon:

- The extent to which they already have to (due to global activity) or choose to have OM on their products (i.e. where they already meet obligatory requirements or have taken a voluntary approach) the less they feel COM would represent any major change to their activities / processes.
- What COM regulations would require on specifics like how COO is defined and where the mark needs to be; the largest single type of cost envisaged by respondent businesses was if product moulds and manufacturing processes had to be changed to accommodate a new OM label.
- Product complexity (especially where product rules require valued added to be calculated to define COO).

- Whether COM regulations would be ‘back-applied’ to products already manufactured.

Whilst most businesses’ did not express concern about the cost levels of COM:

- This did not translate into support for COM, just acknowledgement that its introduction would have an - at worst - marginal impact (and then only as long as requirements closely aligned with current voluntary practices and obligatory requirements). Even small fixed costs could disadvantage some smaller companies producing in or exporting to the UK.
- The sample responding to the research – predominantly larger businesses which export - were usually already complying with some form of OM requirement. It might therefore be supposed that the average cost impact on businesses more widely would be greater, as they would need more time and resource to familiarise with and adapt to COM requirements. They may also be more likely to find themselves non-compliant and so experience detrimental effects.

It should be noted that even in a voluntary OM scheme with some level of auditing, most costs would not be less than those from COM as the costs arise from having to establish the correct COO and designing and placing new labels on products / packaging.

For public sector authorities / agencies, the magnitude of costs - and on whom they would fall - were felt to depend upon the level of priority given to COO enforcement and the level of intelligence likely to be received on it. Overall however, even if a low priority were placed on COM enforcement, most enforcement agency representatives felt that the one-off resource requirements from COM would place a further strain upon already-stretched resources. It should of course be noted that under voluntary OM schemes, no such costs are incurred (unless referred to trading standards as mis-advertising). Voluntary schemes would carry no enforcement costs at all; the only potential costs for public authorities would be referrals to Trading Standards of misleading COOs (as might happen under current rules).

In terms of potential costs to consumers, almost one third of businesses and stakeholders interviewed in the study anticipated that

any costs arising from COM would be passed on to consumers – as well as down the supply chain - through product price rises. It was less clear that businesses would pass on costs to consumers if they chose to be involved in a voluntary OM scheme.

Overall conclusions

On balance, the responses obtained from this study - from a wide range of organisations – can be reasonably summarised by echoing the response of one stakeholder: Compulsory Country of Origin marking would seem to be a requirement that will increase costs and complexity for business without benefit for public authorities or consumers. Despite slight variations by size and sector in terms of the scale and type of effects anticipated by businesses, the above was a general consensus.

Voluntary OM schemes already exist and have a number of business participants; in addition many businesses choose to declare OM outside of any formal voluntary scheme or obligations arising from export. The likelihood of costs and benefits arising – and the scale of these – would seem to be largely the same for participation in a voluntary scheme with a mandatory definition of origin, with the exception of potentially less stringent requirements and minimal costs for public enforcement bodies.

To summarise the potential of voluntary schemes, where businesses believe there is value in them, they are already taking them up or independently stating COO. A voluntary scheme with associated certification / auditing would improve compliance with the scheme criteria, but would not have any substantial effects upon business costs or benefits beyond other types of OM participation.

Key

The following table provides definitions for each of the following terms used throughout the report. In particular, as the report presents qualitative findings based upon a limited sample, it was not always deemed appropriate to state %s within the report. The table therefore provides a definition for some of the more broad qualitative terms used to describe the extent of the sample.

Table 1: Definition of terms

Term	Definition
COM	Compulsory Origin Marking
COO	Country Of Origin
OM	Origin Marking (whether voluntary or compulsory)
In the context of quantifying responses...	
Majority / Most	More than half of respondents <ul style="list-style-type: none"> • For businesses, more than 16 • For enforcement agency representatives, more than 5

Term	Definition
Some	<p>Between one third and two thirds of respondents</p> <ul style="list-style-type: none"> • For businesses, between 11 and 22 • For enforcement agency representatives, between 3 and 7
Several / few	<p>Less than a quarter of respondents:</p> <ul style="list-style-type: none"> • For businesses, less than 8 • For enforcement agency representatives, less than 3
Minority	<p>Less than half of respondents:</p> <ul style="list-style-type: none"> • For businesses, less than 16 • For enforcement agency representatives, less than 5
In the context of costs and benefits...	
Negligible	Cost / benefit acknowledged but almost no discernible effect on organisation resources i.e. absorbed.
	Cost / benefit noticeable but no significant effect from it

Term	Definition
Marginal	on resources
Substantial	Significant effect upon the organisation's resources i.e. assumed to affect competitive advantage.

1 Introduction

1.1 Context

There is currently no EU legislation concerning labelling or marking the country of origin on non-food products imported into or produced within the EU. Aside from individual member state requirements, producers and importers are free to decide whether to include origin information on their products.

Under EU customs legislation, the COO must always be indicated on the customs import declaration and Directive 2001/95/EC on general product safety obliges distributors to keep and make available the documentation necessary for tracing the origin of products.

In 2005, the European Commission adopted a proposal for country of origin marking of certain products imported from third countries. However, in December 2012 it announced its intention to withdraw this proposal. In 2013, provisions on mandatory country of origin labelling were included in the Proposal for a regulation on Consumer Product Safety. Not all details of the proposed COM have been decided upon, though most of the important elements have:

Outline of the Commission proposals for Compulsory Origin Marking

The Commission's proposal is for mandatory country of origin marking on most non-food consumer products on the internal market, both those imported and those produced within the EU. It would oblige manufacturers and importers to ensure that products, packaging or accompanying documents bear an indication of the country of origin. The ideal is for the label to be on the product unless this is not practical. Goods made by a member state would be permitted to be labelled as 'made in [the member state concerned]' or 'made in the EU'. Definition of country of origin would be based on existing non-preferential origin rules governing trade with non-EU countries. Determination of this would be by either:

- "Wholly obtained" products - applies if only one country is involved in the production of goods. In practice this is mostly restricted to products obtained in their natural state / goods made entirely from wholly obtained products or their derivatives obtained in the concerned country.
- Products having undergone "a last substantial transformation" when two or more countries are involved in the production of goods (as for most non-food products). Determining the origin country can be a complex process; 'substantial transformation' can be defined in three ways:
 - A change of tariff (sub) heading. In principle the headings correspond to the degree of processing. Therefore a change in the level of classification of the product may confer origin on that product in the country where that change last occurred e.g. product components come from one country and are classified under a first heading; a final product derived from these components is manufactured in the second country. This new product is classified under a different heading and confers origin status on the manufacturing country.
 - From a list of manufacturing or processing operations which do / do not confer on the products the origin of the country in which the operation took place.
 - Through a value added rule, under which the increase of value due to assembly operations taking place in a country and incorporation of materials originating in that country must represent a specified percentage of the price of the product to confer the origin on that country.

Table 2: Summary of EU COM proposals alignment with major export markets

	USA	Canada	Korea	EU COM
Criteria employed				
Wholly obtained ³	Is used	Not applicable except in relation to countries having trade agreements with Canada.	Is used	Is used, but applies to minerals, vegetables, live animals, etc – so not relevant to manufactures.
Substantial Transformation	Applied to goods originating from non-NAFTA countries.	Applied to goods that originate from non-NAFTA countries.	Is used	Is used, but in practice is further defined by list rules ⁴ .
Responsibility for correct definition of origin				
	The importer.	The importer.	The importer.	Manufacturers and importers ⁵ .
Method of marking				

³ ‘Wholly obtained’, refers to goods produced in one country entirely from products wholly obtained in that country i.e. no materials originating outside the free-trade or preferential zone.

⁴ http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/non-preferential/article_1622_en.htm

⁵ The precise penalties for incorrect labelling of origin – in so far as they affect custom duties - vary according to national legislation. In the UK, for example, importers may be liable for any unpaid or incorrectly paid duty for up to three years after the product has been imported.

	<p>Fundamental criterion for all goods imported into the US: name of country to be as clearly and conspicuously marked as the article permits (this includes containers)</p>	<p>Non-NAFTA goods to be marked in English or French; The marking of goods shall be 'legible, sufficiently permanent and capable of being easily seen during normal handling'.</p>	<p>Country of origin to be marked in English, or the relevant language. Regional or economic blocs which are not individual countries (e.g. EU, NAFTA) are not accepted. Regional marking is permitted if it used to denote a separate country and is internationally accepted.</p>	<p>Goods originating within the EU should be marked as 'European Community – [member state]'. Goods originating outside the EU must indicate COO. Area groupings – e.g. NAFTA - are not acceptable.</p>
Exemptions from marking				
	<p>Wholly obtained US-made goods, including: articles not physically capable of being marked/or can only be marked at the risk of damaging the article. Precise regulations vary between those belonging to NAFTA, and those not.</p>	<p>Numerous including: goods that are gifts or bequests; goods imported for use by the importer and not intended for sale in the form in which they were imported; goods incapable of being marked; goods that cannot be marked except at substantial cost, or without materially impairing their function or appearance, and goods for which the 'ultimate purchaser' would 'reasonably' know the COO even the goods are not so marked.</p>	<p>Complete exemption from marking applies to donations for charitable purposes (i.e. Not for sale) and goods produced more than 20 years before their importation to Korea. 'Exceptional marking methods', such as use of tickets, tags and stickers, applies when the characteristics of the good makes it inappropriate for them to be marked. Specific regulations governing the marking of electrical appliances (safety), and pharmaceuticals may be accepted as indicating COO.</p>	<p>Medicines. Foods are covered by different marking regulations.</p>

1.2 Study objectives

The Department of Business, Innovation and Skills (BIS) wanted to carry out a robust and evidence-based study into the costs and benefits to the UK of including a provision of Compulsory Origin Marking (COM) within the Consumer Product Safety Regulations. The main objectives of the research were to ascertain:

- How familiar the UK product supply chain is with the concept of ‘origin’ as defined by the EU non-preferential country of origin regulations;
- Whether the requirements of COM complement or conflict with the pre-existing origin marking arrangements, in particular existing voluntary OM;
- The types of costs and benefits that might arise through introducing a compulsory origin mark in the UK, to the following groups:
 - a. Business (the core group of interest)
 - b. Public sector (e.g. regulatory enforcement bodies)
 - c. Consumers (as the group theoretically intended to benefit most from COM)
- The scale of those costs and benefits.

This report provides findings based upon phases 1 and 2 of this multi-phase study. The third and final phase – a survey of SMEs - is currently being conducted.

1.3 Summary of approach

Phases 1 and 2 of the research comprised the following:

- Agreement at inception of the sectors to be covered in the research; it was recognised that the research needed to include several sectors representing differing levels of product complexity. It was agreed to focus upon the following – ceramic tableware⁶, consumer electronics (in particular audio and smart phones), and cars. Businesses valid for inclusion were defined as: any private sector firm or social enterprise that operates within the supply

⁶ The ceramics sector in particular had historically shown interest in the prospect of COM.

chain for either ceramic tableware, consumer electronics, toys or cars⁷. Due to lower than anticipated response rates amongst businesses, it was agreed at the interim reporting stage that the toy product category would also be included.

- A systematic search of available literature and studies (phase 1) exploring other examples of origin marking schemes and their effects upon business and enforcement bodies; a full review of twenty sources of evidence (those of the highest relevance and quality) was conducted.
- Scoping discussions with both BIS and a range of other stakeholder organisations (across phase 1 and 2), representing the different groups outlined above and the initial product categories proposed to form the focus of the research.
- Qualitative telephone interviews with 32 businesses and 4 wider stakeholders in the aforementioned sectors, and 9 representatives of UK enforcement agencies / bodies (phase 2), in order to explore their current OM practices and understanding and expectations of the effects of COM. Both random and snowball sampling methods were used to build a sample of business responses.

1.4 Literature review: key findings

The purpose of the evidence review was twofold:

1. To identify existing evidence to address the research objectives i.e. establishing the costs and benefits of introducing COM.
2. To shape the approach for primary research in later phases.

The full results and bibliography are available in a separate report to BIS; this section comprises the key findings.

1.4.1 What are the costs and benefits of introducing a compulsory origin mark in the UK?

The evidence review revealed a wide range of theoretical costs and benefits of introducing a compulsory origin mark, yet there was very limited evidence to say the extent to which these theoretical costs and

⁷ These sectors in turn were defined by SIC codes.

benefits arise in practice. There was also a lack of information relating to the specific product sectors of relevance. The table below summarises the types of costs and benefits identified in the literature that could theoretically affect each stakeholder group of relevance to this study:

Table 3: Summary of costs and benefits identified in the literature

Stakeholder group	Costs	Benefits
Business	<ul style="list-style-type: none"> • Determining COO – which could be more difficult for businesses with global supply chains e.g. electronics and cars. • Familiarisation with the legislation - time spent acquiring, reading and understanding the legislation and seeking external advice where necessary to do this. • Briefing marketing and / or artwork design studios to design the label. • Collection and validation of information - involving technical production and quality management, as well as marketing and legal inputs. • Increased product testing (to check labels are correct before leaving the factory). • Updating marketing material and web sites. • Travel costs - meetings with designers / legal advice etc • Printing costs / embossing costs • Auditing to ensure compliance including record keeping and administration costs • Increased risk of the wrong label being put on - thus requiring product withdrawal. • Capital and machinery upgrades 	<ul style="list-style-type: none"> • Reduced incidences of counterfeiting, and resulting burden of dealing with this, although there isn't a convincing argument in the literature about <i>how</i> COM would reduce counterfeiting. • A more equal competitive advantage against countries selling to the EU • Some consumers may be willing to pay a higher price for products if they know the country of origin which means businesses could charge higher prices and make higher profit margins.

Stakeholder group	Costs	Benefits
	<p>to packaging equipment, software, IT needs, systems to cope with switching different origin labels.</p> <ul style="list-style-type: none"> • Recruit and train staff to ensure compliance. • Moving production to maintain brand reputation (due to the risk of some consumers not willing to purchase products originating from certain countries). 	
Consumers	<ul style="list-style-type: none"> • Potential increased cost of product 	<ul style="list-style-type: none"> • Increased confidence in product purchase • In theory, fewer cases of unsafe products on the market – increased public safety through authorities being able to more easily identify the source of the problem, take action, and reduce the risk of unsafe products in the future. However, there doesn't appear to be any robust evidence to confirm this.
Public sector	<ul style="list-style-type: none"> • New systems to be put in place to check against rules. • Labour costs • Storage 	<ul style="list-style-type: none"> • Reduced incidences of counterfeiting, and resulting burden of dealing with this. This is suggested to be through more easily being able to identify the source of the problem, taking legal action, and deterring people / organisations from counterfeiting in the future. There is no evidence cited to confirm this however. • Increased certainty that unsafe products can be traced back to country of origin. • Some viewed the origin labels for the food industry as an opportunity for COM to simplify

Stakeholder group	Costs	Benefits
		existing checking processes and therefore increase efficiency.
Other	<ul style="list-style-type: none"> An awareness raising and understanding campaign targeted at consumers to ensure they understand COM meaning. 	

1.4.2 Value of costs and benefits

There are a small number of studies that quantify the costs of COO marking, although few related specifically to the UK and none to the product sectors this study focused upon. The units and values of the costs and benefits cited in the literature vary widely which make them difficult to compare on face value. Overall, sources provided mixed evidence as to whether introducing a COM would increase costs for businesses and / or regulatory organisations.

- Two sources suggested that the increase in costs would be very low, including a European Commission study (2013) on mandatory origin labelling on meat products.
- Where quantification of costs to business was possible (mainly based on the food or textiles industries), evidence relating to the costs associated with marking a product included:
 - It would cost <1% of the ex-works price to mark a product, as cited in the EC (2005) Commission staff working document.
 - An independent study in 2005 on trade barriers affecting the textile industry found that it would cost €1-2 to include a COO label on each apparel / footwear product.
 - An independent study by Campden Technology (for Defra) in 2010 cited an EC impact assessment on food labelling which estimated the costs to a business of implementing a new product label to be between £1,500 to £9,750 per product line.
- Evidence relating to the costs associated with administration and record keeping included:

- The CEPR (2013) Trade and Competence Review cites evidence of administration and record keeping costs of complying with Rules of Origin to be between 4% and 15% of trade value.
- A study by Herin (1986) found that for businesses in developing countries, the cost of providing documentation to prove country of origin to be 3% of the value of the goods.
- The US International Trade Commission study (1996) found that businesses reported the administration burden of complying with origin marking legislation to be <1% of sales.
- Where quantification of costs to the public sector was possible, estimates include:
 - A cost of between \$3.3million to \$3.6million to the USA Government to administer and enforce COO laws for the years 1993-1995. Administration costs included issuing regulations and rulings. Enforcement costs included investigations and court proceedings.
 - US Customs estimated between \$1.6m and \$1.8m to administer and enforce COO requirements, primarily salary costs to issue ruling letters, legal costs, and investigations of violations.

1.4.3 Benefits

The review identified mixed evidence with regards to the extent to which consumers value COO information and whether it affects their decision to purchase and willingness to pay. The evidence relating to this subject included empirical research (largely academic, including quantitative and qualitative methods) and can be summarised as follows:

- Studies finding positive links between the consumer using country of origin information to evaluate the product, purchase intention and willingness to pay for certain products (Huia et al, 2000; Eberl, 2010)
- Studies finding some links although identifying significant flaws such as the consumer not identifying the correct country of origin when evaluating the product, and the consumer using generalisations / stereotypes to evaluate country of origin.

- Studies not finding any link between country of origin and consumer's product evaluation, purchase intention or willingness to pay.

None of the studies attempted to quantify the benefits for the products of relevance to this study.

The review did not identify any evidence that quantified the potential benefits of COM to businesses or the public sector which are summarised in Table 1.

1.5 Phase 2 business participant profile

The ceramics tableware sector constituted the largest group interviewed (12); eight interviews were conducted with consumer electronics firms, six with car companies and six with toy companies.

Most were solely product manufacturers, though the sample also includes retailers, distributors and organisations that conduct activities across the supply chain. Together, these are referred to throughout the report as 'businesses'.

All but four of the businesses had some export activity outside the EU, though the extent of this ranged between 4% and 75% of revenues. Three businesses only imported and one did neither. Where they imported products / components, this was usually from China or Korea.

The roles of the individual being interviewed varied considerably across the businesses. The most commonly interviewed role was a technical manager or quality assurance manager, which tended to encompass a number of regulations that could apply to the product. Several large businesses had a very specific role focused upon COM and similar issues (e.g. a 'Product Requirements and Compliance team Project Leader' and a 'Head of UK Government Affairs'). Roles in smaller companies included managing directors or owners. As might have been expected, it seemed that larger businesses had an individual – and sometimes a whole team – whose role it is to investigate and ensure compliance. For small businesses, this role tends to fall upon senior managers or directors who have a range of other responsibilities.

1.6 Observations from recruiting phase 2 participants

The table below summarises the efforts made to recruit respondents to the research:

Table 4: Summary of respondent recruitment

Sector	Number contacted	Number interviewed	Number that are SMEs	Number that are (predominantly) manufacturers	Number that export outside the EU	Number that currently origin mark	Any wider consultation
Business – ceramics	40	12	5	9	7	12	<ul style="list-style-type: none"> • Giftware Association circulated information to 1,000 members • British Ceramics Federation circulated information to 100 members
Business – consumer electronics	140	8	0	3	6	5	<ul style="list-style-type: none"> • Tech UK and NMI tried to engage with some of their members to encourage participation
Business – cars	12	6	0	6	6	4	<ul style="list-style-type: none"> • SMMT liaised with their members to encourage participation

Sector	Number contacted	Number interviewed	Number that are SMEs	Number that are (predominantly) manufacturers	Number that export outside the EU	Number that currently origin mark	Any wider consultation
Business – toys	120	6	4	1	2	6	<ul style="list-style-type: none"> British Toy and Hobby Association liaised with their members to encourage participation
Public sector	12	9	N/A				<ul style="list-style-type: none"> Organisations with enforcement responsibilities e.g. Trading Standards and local councils. Other organisations likely to be involved in / affected by COM e.g. HMRC.

Sector	Number contacted	Number interviewed	Number that are SMEs	Number that are (predominantly) manufacturers	Number that export outside the EU	Number that currently origin mark	Any wider consultation
Consultants	5	2	N/A				
TOTAL	329	43					

One important finding from the recruitment process was the unexpectedly high level of challenge in encouraging business participation; similarly, responses generated from trade association circulars to members were very low. Responses given during the recruitment calls indicated several reasons for this:

- Where businesses already do voluntary OM and / or export to countries that require COO currently; some did not expect that COM would mean any significant change to the way they operate.
- Some businesses with a supply chain entirely based in the UK seemed (erroneously) to believe that COM would not place any requirements upon them.
- Those businesses that only retailed or imported products saw COM as a concern principally for the product manufacturer (again, erroneously in the case of importers).
- It was also theorised that as EU COM is only a proposal at this stage, it has had low levels of publicity and many respondents may have felt the prospect was too far away.

Another key finding was that when contacting some businesses, the individual answering was not at all sure who to signpost within their organisation, or even whether there was anyone appropriate. This implies that with regards to COO compliance, some businesses may have very limited awareness, understanding or interest in this at present.

The relatively low levels of business response and uncertainty encountered should be considered when interpreting the findings, as responses principally came from respondents that were (a) keen to articulate views about COM; and (b) tended to have a good understanding of the subject (c) representing large, well resourced companies that already origin-mark and export to countries that require it⁸. Phase 3 of the research comprises a survey of SMEs to explore any differences in awareness, knowledge and perceptions of COM between these and the generally larger businesses interviewed in phase 2.

⁸ A recent British Chambers of Commerce study found that 39% of member businesses were exporting in 2013. Almost all of the businesses participating in this study export. <http://www.britishchambers.org.uk/press-office/press-releases/bcc-international-trade-survey-exporters-need-more-support-to-break-into-global-markets.html>

2 Interaction with Origin Marking

- The majority of businesses responding to the research already comply with COM requirements in the countries they export to⁹. This meant that in general these businesses were fairly confident that they understand current OM requirements, albeit some expressed uncertainties about the precise requirements of the proposed COM and how this might affect them. As there are differences in the requirements, respondents were perhaps unaware of or underestimated these.
- A minority of businesses do not currently place COO on their products and these businesses tended to be less confident about COM rules and how these might apply if they were introduced.
- Several respondents erroneously seemed to feel that COM might not apply to them because their supply chain is entirely within the UK. This – coupled with the high proportion of businesses that did not participate in the research – might indicate that a large proportion of (particularly small) UK businesses are not currently aware of or prepared for COM.
- Businesses did not have a shared view of the extent to which COM would ‘complement’ either voluntary requirements or the compulsory requirements of states outside the EU. Some businesses felt that the proposed EU COM requirements replicated their current practice on OM and would therefore be a complementary and a useful reinforcement of those. Other businesses viewed the proposals as a duplication of existing practices which would add nothing except potentially an additional layer of bureaucracy.

2.1 Understanding of current Origin Marking rules

Many companies – especially larger ones trading internationally – already do COM to some extent. Some only do it for products that are exported to countries requiring COM; others simply do it as standard across all products regardless of point of sale. There are also sufficient requirements around product import and export for most of these major companies to at least have a full audit trail of their products’ supply

⁹ Predominantly in North America, East Asia and Australasia.

chain, even if they don't have an OM stamp. Some are also motivated by drivers like CSR policies, Fairtrade commitments, or simply a desire to retain oversight of their supply chain and manage risk.

When asked how well they felt they understood COO marking requirements for their sector, most respondents felt highly confident that they understand the specifics of these requirements. There did not seem to be any variation by sector; the extent to which the businesses already used COO was the principal factor.

In around half of cases, this was because they did not think any COO requirements applied to them. In all such cases they stated a reason why this was the case – either they were retailers who pointed out that it was the manufacturers' responsibility, they only exported within the EU or they were in an entirely UK-based supply chain selling only to UK consumers. These assumptions highlight a potential compliance and cost risk if the rules of the new COM were not made clear i.e. it applies even if the entire supply chain sits within one EU state. There are key differences between the proposed EU COM and existing rules of origin marking of major EU trading partners; for example:

- Range of products – some key trading partners only require OM for specific products, others for all imports.
- Detail of the label - the US does not accept "EU" markings since these do not indicate the individual country of origin of the good.
- In some cases differences in list rules defining origin.

Others were confident that they understood current OM requirements as they already have to adhere to them (due to their exports) or do so voluntarily for marketing purposes¹⁰ (in particular 'Made in England / UK' for ceramics). Several specifically cited the 'last substantial change' definition before it was explored in the interview and seemed aware of some planned changes to requirements e.g. including details of both the manufacturer and the importer. Two respondents pointed out that they belong to industry bodies and committees that present details of new directives / legislation.

¹⁰ Though none of these businesses were able to quantify the benefits of the 'Made in UK' label; either in terms of increasing sales or enabling a higher price.

Those few businesses with low confidence – or with any uncertainties at all about COO compliance – mentioned the following:

- Lack of clarity as to what COO requirements are as they don't currently have to do it;
- Uncertainty about how to determine products that are made in one country and decorated in another [small ceramics importer];
- Perceptions of the criteria for establishing COO being vague [small ceramics manufacturer];
- The need for more clarity on new proposals such as the COM – respondents mentioning this wanted more information as to when it could be introduced and what length of transition there would be.

2.2 How well Compulsory Origin Marking would fit existing practices

All respondents were asked directly about the extent to which they felt the COM proposals would complement their current approach to compliance. They were not directly tested on their understanding of how closely the EU COM proposals aligned with either existing voluntary schemes or COM requirements in other countries, though this could be inferred from their answers on the effects of the new COM to the status quo in terms of costs and benefits.

Respondents were split almost equally as to whether or not COM would complement their existing processes; a small number of respondents also said that they were not sure either way until they had more information on the small number of requirements that have yet to be agreed e.g. the appearance of the label and where the mark / stamp would need to be placed. Ceramic businesses seemed more likely than those in the other two sectors to feel that COM would complement current systems, though in some cases this response seemed to reflect more a general support for tighter regulation on OM than an assessment of COM fit with current practices.

In addition, there were potential gaps in understanding i.e. respondents who assumed that proposed EU COM requirements would be very similar to current practices in terms of what information needs to be included and how COO would be assessed. Where they felt the COM

(as described) would complement existing practice, for some respondents this was because it seemed to them to formalise and reinforce what they are already doing¹¹ and align with what many countries already require: *“It would make no discernible change to the way that we operate.”* Several saw it as an opportunity to enhance / strengthen current rules e.g. encouraging more enforcement, addressing useful of place names (which might imply a COO) as brands: *“It would be a huge coup to UK manufacturing to have a robust system for COM in place.”*

Of those respondents that felt COM would not complement existing practices, some critiqued the practicality of enforcing it rather than addressing its fit with current practice. Issues raised about COM complementing were as follows:

- Several respondents argued that because they already do this, the COM would add an unnecessary layer of regulation.
- The potential for the stamping requirements to affect current manufacturing processes.

No respondents opposed COM on the basis that it was inconsistent with pre-existing rules around COO, though, as stated, respondent understanding of differences was not tested.

Enforcement agency representatives were more likely to say that the COM would not complement existing requirements. However, as with businesses, their principal objection was that EU COM requirements would duplicate existing checks on imports (and was therefore unnecessary) rather than highlighting any way in which it contradicts current requirements.

¹¹ 15 respondents said that their business already has to comply with COM requirements outside of the EU and a further 5 said that they do OM voluntarily.

3 Benefits of Compulsory Origin Marking

- The stated aim of the draft regulation and inclusion of COM is to enhance consumer safety. Overall, neither this key benefit – nor the secondary aim of tackling and reducing counterfeiting - was recognised by respondents (including those who already use an origin mark). Pertinent to Consumer Product Safety Regulations, respondents were not able to discern a link between the requirement for a ‘Made in...’ label on a product / packaging and improved safety, nor do they think the requirement would add at all to existing product safety regimes.
- This view was common across respondent groups but particularly strong where the sectors already have very strict rules governing product safety e.g. cars or toys.
- The views also applied to voluntary OM, in the sense that no organisations doing this see how it could enable consumer safety benefits. They do it in the hope that it strengthens their brand image, though none could provide clear evidence of this.
- As for those voluntary schemes, one benefit acknowledged by a number of respondents was the potential for a country’s positive reputation in a specific product category to generate sales for businesses using that COO *amongst a minority of consumers who purchase on this basis*. However, it was pointed out that where this is the case, businesses can – and will already tend to – utilise voluntary COO labelling schemes i.e. this was really a benefit of OM in general rather than the introduction of a compulsory element.
- COM may be distinct in introducing the potential advantage for some businesses of forcing their competitors to make their COO clear (obviously not a feature of voluntary schemes), so leading to a shift in market share. Six out of 25 businesses thought that COM would benefit them in that way and one could quantify this, estimating a 1-2% improvement in sales through winning business from competitors with less favoured COOs.
- Responses from the organisations interviewed indicated that delivery of any added value from *compulsory* OM (either to counterfeiting levels or marketing advantage) would be only arise if there were (a) a much more

informed and COO-motivated consumer market; (b) much enhanced inspection and enforcement regime; (c) according to several businesses, alterations to the current rules around how COO is defined in some product categories.

3.1 Hypothetical benefits explored

Initial phases of the research – both the literature review and phase 1 wider stakeholder interviews - identified and tested a number of hypothetical benefits of COM to businesses, consumers and enforcement agencies. These are summarised in the table below:

Table 5: Summary of hypothetical benefits to businesses, consumers and enforcement agencies

Business benefits	Increased sales / market share	Consumers may switch to / select particular products based upon COO.
		Consumers may be willing to pay a higher price for products of a particular COO, meaning opportunity for higher prices and profit margins regardless of any actual increase in units sold.
		Reduced incidences of counterfeiting, so reduced competition.
	Reduced costs of pre-empting or dealing with counterfeiting,	
Consumer benefits		Greater control / ability to make purchasing decisions based upon COO.
		In theory, fewer cases of counterfeit unsafe products on the market.
Enforcement agencies		Reduced incidences of counterfeiting i.e. introducing COM drives compliance
		Simplified checking for COO

3.2 Expectation of benefits

3.2.1 Consumer benefits

Couching of the COM proposals within Article 7 implies that consumer safety is the principal anticipated benefit of introducing COM. The extent to which enforcement agencies and businesses envisaged that the aforementioned consumer benefits would be achieved is shown in Figure 1:

Figure 1: Business and enforcement agency expectation of hypothetical COM benefits to consumers [n=41]

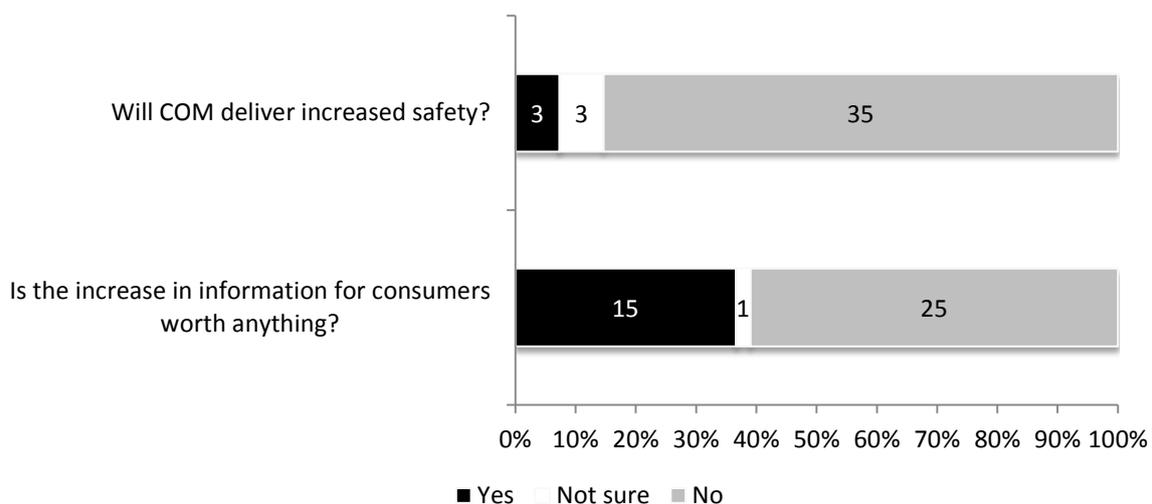


Figure 1 shows that the vast majority of respondents did not envisage any consumer safety benefits from introducing COM. Most of this group could not see the link between the two at all: *“it is difficult to see how compulsory origin marking would increase product safety.”*. The six that thought there was – or might be - a link, all put COO on their products.

Two respondents argued that if products without COO tend to be those that are less safe, filtering out such products should have a positive effect on overall product and consumer safety. This view was based on

the assumption that not providing a COO can be conflated with lack of product safety¹².

One respondent felt that there was potential for COM to deliver increased safety because "*some countries have less rigorous safety.*".

More respondents – though still a minority - felt that providing consumers with more information was a positive step in itself, though when asked to explain what wider benefits they thought this would have, few could articulate this, tending instead to reiterate that there is a general benefit to maximising the information given to consumers.

3.2.2 Business benefits

All business respondents were prompted with each theoretical business benefit; the extent to which they anticipated these being realised through the introduction of COM is shown in Figure 2:

Figure 2: Business expectation of hypothetical COM benefits to business [n=32]

¹² In addition, neither respondent considered the opposite scenario i.e. that if labelling and safety are conflated by consumers, COM would likely mean COO labels being placed on unsafe products (in line with requirements) and that these products would then give (an undeserved) impression of quality and safety and so potentially *increase* their incidence in the market.

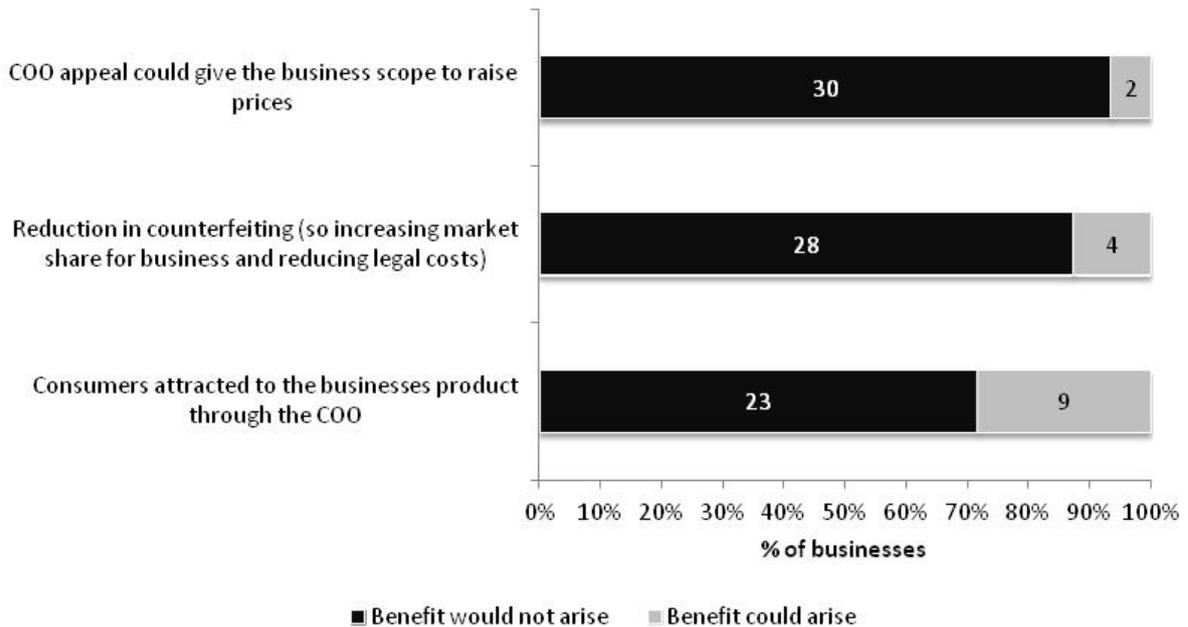


Figure 2 shows that only a small minority of business respondents anticipated each of the benefits; only six envisaged any of the benefits. Whilst respondents were most likely to recognise consumer attraction to particular COOs, several also observed that those consumers who care will already be making purchasing decisions in line with that, whilst companies seeking to target them will already include OM on products regardless of whether they are compulsory.

Only one business respondent was able to estimate the likely effect of consumer preferences for certain COOs; they estimated a 1-2% increase in sales *if* COM was rigorously enforced to prevent counterfeiters placing false COO on their products.

3.2.3 Enforcement agency benefits

No representative of enforcement agencies agreed that COM would reduce counterfeiting, nor did they feel that COM would simplify COO checking.

3.3 Barriers to achieving benefits

Where they did not envisage the hypothesised business benefits, respondents were asked to explain this. Their responses can be summarised into four key barriers, each explored in more detail below:

1. The level of consumer interest in COO
2. The level of information provided in the COM label
3. The level of enforcement on COO
4. How COO is defined.

Most respondents struggled to see the added value of the COM proposals from any angle, arguing that:

- Where consumers care about COO they will already be investigating / making purchases on that basis;
- Where businesses want to target them, those businesses will already be declaring COO;
- Where there might be potential hazards / safety issues with certain sectors or products, there is already a very rigorous safety regime in place.

3.3.1 Consumer interest

The majority of businesses felt that *most* consumers are not interested in COO. Consumer interest was felt to vary by product category and by the audience a product is targeted towards. For example, a minority of consumers were seen as selecting / eschewing products based on their COO (from environmental, ethical and / or other motivations) and some respondents stated that their brand carried appeal because of its 'Made in UK' reputation.

However, these businesses acknowledged that those consumers who are motivated by COO for any reason will *already* check for it and make purchasing decisions based on it. Similarly, businesses that felt their COO might appeal to those consumers already ensure that their products carry an origin mark and/ or participate in voluntary OM schemes.

Any benefit of COO to consumer safety would first be reliant upon consumers caring about and taking notice of COO. One respondent hypothesised that the introduction of regulations around COO could raise its profile amongst consumers, but most did not envisage a significant change in how their customers would make purchasing decisions.

Several respondents said that without a substantial shift in consumer purchasing behaviour to focusing more on COO, it is unlikely that this

sales benefit would be substantial¹³. It was pointed out that any COO marketing and sales benefits are – and would be - dependent upon:

- Whether Product X’s market comprises a significant proportion of customers who purchase on COO (as opposed to price or brand).
- How Country X is currently – and might in future be - perceived in relation to product category X (as one respondent noted, reputations are rarely static);
- The COO range in a product category; in some sectors the COO for major companies is very homogenous so COM would generate no significant market advantage. No respondents representing large companies entertained the idea of moving their manufacturing base in order to take advantage of consumer preference benefits, implying they view these as limited.

3.3.2 Compulsory Origin Marking information

Assuming most consumers *did* notice and care about COO, delivery of any safety benefits would then be reliant upon consumers being able to interpret and act upon the information provided by a COM.

Respondents pointed out that the safety and quality of manufacturing within any one country might vary considerably. Therefore to be useful in empowering consumers to select ‘safe’ products:

- The labelling required by the COM regulation would have to convey much more detailed and geographically specific information than simply a ‘Made in Country X...’ stamp, and more than a ‘Made in EU’ stamp;
- The details of locations of *each and every* stage of manufacture – not just the last - would have to be included in the information to consumers (substantial quantities of information for certain complex product categories such as cars);

¹³ Several respondents perceived that, for example, a ‘Made in UK’ stamp only tended to be beneficial for high-end products for a small proportion of the market: “*I would have thought that today most consumers expect most of the products they see to have originated overseas.*”

- All consumers would have to be sufficiently informed as to the safety record of each and every point of manufacture both for the product and its components. In practice, this is clearly not possible.

Overall, when asked to assume all consumers were interested in COO and therefore whether consumers might be able to make product safety / quality decisions using a single ‘Made in...’ label alone, most business and stakeholder respondents did not think that they could. Some respondents anticipated that consumers might use it, but would simply be making any such decision based upon (potentially erroneous) preconceptions as to the safety record of a particular country as a whole: *“consumers would have to be taught that COO and quality of manufacture/ design are not the same thing.”*

One European consumer group noted that some consumers *“would be interested to know that certain products are imported and the precise country of origin”* but that *“...information about the country of origin is not...inherently very valuable...It carries little or no information about the nature, composition, production or distribution history, and the environmental or social impact of the product.”*

A further point raised by stakeholders – particularly in the car, toys and consumer electronics sectors – is that there are already stringent safety regimes, regulations and labelling requirements (e.g. the CE mark) governing their products. These have to be complied with to enable product entry to the EU market. Several pointed out that regardless of EU entry requirements, eliminating safety risks is of paramount importance anyway, particularly in sectors where there is a substantial consumer and media focus upon safety e.g. the automotive industry. Overall, few respondents felt that the current COM proposals would add any value to their sector’s current obligations around safety.

3.3.3 Level of enforcement

Where a particular country is perceived to be synonymous with good quality, or where consumers wish to ‘buy local’, carrying a COO could help businesses to win custom. However, this benefit was pointed out to be one of OM rather than COM. The research itself, as well as perspectives from business and stakeholder respondents, highlighted that businesses can – and will already tend to – utilise voluntary COO labelling schemes where they perceive that they might derive a market

benefit from this. It was noted by several stakeholders and businesses that making OM compulsory could have a further beneficial effect in forcing businesses that currently do not display COO (yet benefit from an incorrect consumer perception of their products' COO) to do so, leading to transfers of market share. The same argument is made for the beneficial effect of COM upon counterfeit goods.

Respondents highlighted that any realisation of increased market share would be reliant upon a very effective enforcement regime, as counterfeiters would be more than capable of replicating an OM label for a country of their choice (unless, as one stakeholder noted, the labelling requirement was in the form of a prohibitively expensive hologram or similar).

In citing benefits, several business respondents seemed to pre-suppose excellent compliance and assume that COM would automatically mean reduced counterfeiting. Yet stakeholders in a position to comment authoritatively upon current inspection and enforcement processes highlighted several barriers to this:

- The resource available to manage ever-growing international movement of goods, therefore the increasing reliance upon a model of targeted intelligence-led investigation and enforcement.
- The perceived importance of – and therefore prioritisation of resource for – COM relative to, for example, monitoring of 'high-risk' goods being sent through border controls.

Many businesses simply saw counterfeiting as a condition of doing business¹⁴. They did not seem to feel that this could – practically – be eliminated, and certainly not through COM.

One stakeholder group pointed out that there already exists a directive on misleading advertising, which could be used to address false COO claims without the need for a new COM requirement.

¹⁴ As one respondent observed: *“There is almost resignation in the industry with prohibitive costs just to pursue the matter (hundreds of thousands) and the fact that you’re unlikely to get a resolution, because whether counterfeiting has taken place is subjective.”*

3.3.4 Defining Country Of Origin

If COM were introduced and successfully enforced, several respondents wanted to see the following changes to OM regulations in order for them to be effective in generating marketing benefits:

- Making the definitions of ‘last substantial change’ more strict to avoid consumers being misled as to where the majority of the manufacture is taking place. The main example given of this was by ceramics firms citing competitors who are manufacturing outside Europe but adding small amounts of decoration in the UK to enable a ‘Made in UK’ label.¹⁵
- Addressing the use of brand names that are also place names, which they feel falsely imply a COO.

These respondents felt that if such issues were addressed, COM *could* generate benefits, but this would solely be to their market share, not to the safety of consumers, and any benefit would be reliant upon a very intensive enforcement regime.

3.3.5 Country Of Origin variance

Market advantage from having a particular COO is diminished if competitor COOs are relatively homogenous. This was something highlighted across the car, electronics and toy sectors, where the vast majority of manufacture takes place in China or South Korea. This means that only a very few businesses in these sectors (and then, likely, small) would benefit from COM and most major retailers would not use or provide products from those manufacturers to consumers.

¹⁵ Such practice would not be within the COM rules, so either implies misunderstanding on the part of those citing the issue as to what is being proposed.

4 Costs of Compulsory Origin Marking

As well as their views on the intended benefits, stakeholders were asked what cost or other detrimental effects they envisaged could be created through COM¹⁶. For businesses, the extent to which COM would create costs for them depended upon:

- The extent to which they already have to (due to global activity) or choose to have OM on their products i.e. the more they do, the less they feel COM would represent any major change to their activities / processes.
- What COM regulations would require on specifics like how COO is defined and where the mark needs to be.
- Product complexity (especially where product rules require valued added to be calculated to define COO).
- Whether COM regulations would be ‘back-applied’ to products already manufactured.

Many businesses felt that some level of initial cost would be incurred, as well as some level of ongoing monitoring cost. Most businesses assumed no major change to either label design or methods of defining COO, and so felt overall costs would be negligible (i.e. no more than 1% of the current cost of producing the product).

It is important to note that many businesses’ lack of concern about cost levels was not support for COM, simply an opinion that its introduction would have an (at worst) marginal cost impact, and then only as long as requirements closely aligned with current practices and requirements, which may not be the case. In addition, even small fixed costs could disadvantage some smaller companies manufacturing in or exporting to the EU.

4.1 Hypothetical costs explored

The hypothetical costs of COM to businesses, consumers and enforcement agencies – identified and explored in the literature review

¹⁶ Though the response of one stakeholder was interesting *“It is not for business to demonstrate what issues COM would cause; it is for [legislators] to demonstrate the necessity for it.”*

and phase 1 wider stakeholder interviews - are summarised in the table below:

Table 6: Summary of hypothetical costs of COM to businesses, consumers and enforcement agencies

Business costs	Costs of compliance	Resources required to familiarise with the legislation and assess any necessary changes in processes / procedures, including seeking external legal advice where necessary.
		Resource required to accurately determine COO, especially in large global supply chains.
		Designing the OM onto the existing label / product design.
		Resource for ongoing monitoring and quality checking / validation of the supply chain to ensure the OM remains accurate.
		Delays at the border if imported?
	Increased product testing (e.g. to check labels are correct before leaving the factory).	
	Loss of sales / market share	Loss of sales due to consumer preference for products manufactured in another country.
Reduced competitiveness if not properly enforced as those ignoring it do not incur costs.		

Business costs	Costs of compliance	Resources required to familiarise with the legislation and assess any necessary changes in processes / procedures, including seeking external legal advice where necessary.
		Potential loss of sales due to detrimental aesthetic impact on the product.
		Moving production to maintain brand reputation / sales.
	Risk of non-compliance	Fines / penalties
		Shipment withdrawal / non-entry to a country due to non-compliance.
Public sector enforcement / surveillance costs	Ensuring compliance	Initial training for staff
		New systems and resources to check compliance, including potential for new staff.
	Requirement for storage whilst goods are checked and should there be an increase in goods being held for being non-compliant.	
	Awareness raising campaign targeted at consumers to ensure they understand and can make use of COM.	
Consumer costs		Potential increased cost of product through aforementioned supply chain costs being passed on.

4.2 Business costs

4.2.1 Overall recognition

Business respondents were prompted as to whether they thought each of the hypothetical costs in the table above would arise if COM were introduced and, if so, to what extent. It is important to note that respondent assessments of likely level of cost were subjective e.g. negligible costs for a global manufacturer could be substantial to a small business. In addition, whilst the research explored costs of familiarising with the EU COM and ascertaining the correct COM, there was no questioning on costs for specific cases where EU rules of origin differ from those in major export markets like the USA.

Figure 3: Extent to which businesses expected each hypothetical COM cost to arise (n=32)

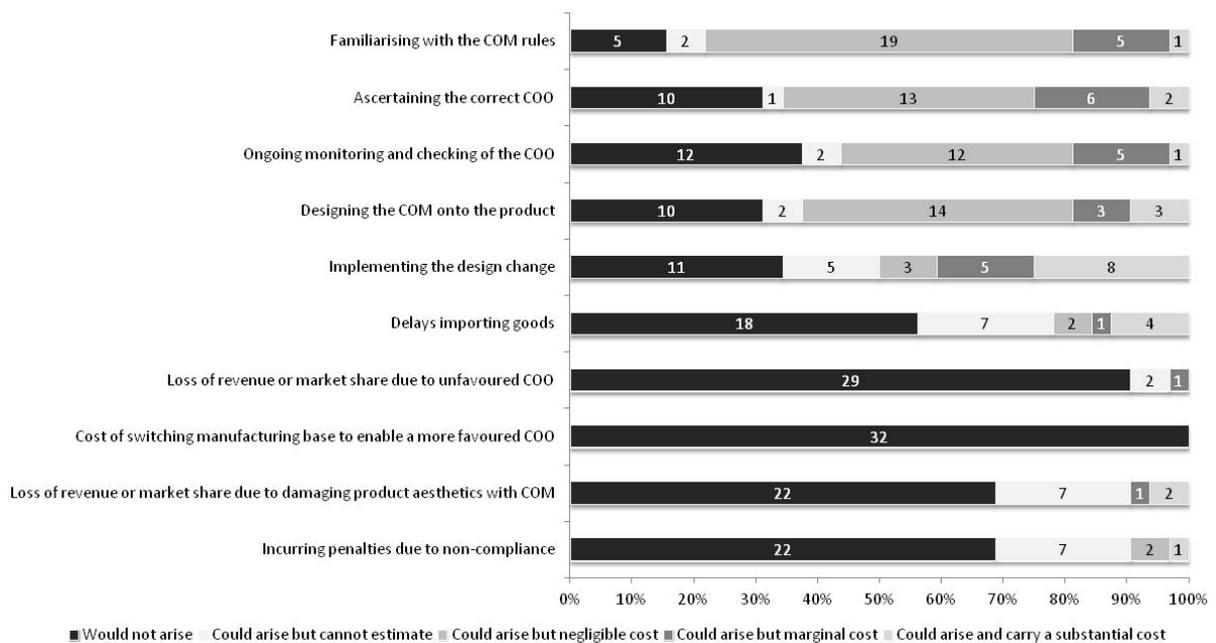


Figure 3 indicates that business respondents found it easier to acknowledge more minor process and administration costs than major changes to sales or operations as a result of COM. The most substantial of these more minor costs envisaged (though not by many respondents) was if COM required OM to be placed on the product, not a label, as this would mean the need to reset manufacturing equipment, moulds and processes to enable the new stamp.

The sections below explore in more detail the responses of businesses on several broad cost categories and factors influencing these. A full costs table is provided in the appendix to this report. **The figures for each cost category have not been extrapolated to calculate overall costs as these are not reliable bases to extrapolate from. As set out later in this section, we have taken a top-down approach to the total UK-wide cost calculation [section 4.2.5].**

4.2.2 Costs to ensure compliance

Table 7: Summary of costs associated with ensuring compliance

Detail of cost	Nature of cost	Costs range quoted
Familiarising with the COM rules, ascertaining the correct COO, designing label onto products and Implementing that design change.	<ul style="list-style-type: none"> • One-off • Varies as to whether per product or per company depending upon the geographical diversity of a company's supply chain. 	<ul style="list-style-type: none"> • Costs cited between £1,000 and over £300,000.

These costs cover a variety of activities and each carried a different scale of cost.

In terms of familiarising with COM requirements and ensuring compliance, the potential for the cost was widely recognised but most respondents expected it to be marginal at worst. Factors that seemed to influence expectations of the severity of this cost were:

- Confidence in current COO practices; where businesses already use OM on their products (either due to export requirements or voluntarily) they felt that any adaptation to new COO requirements would be relatively straightforward. However, as noted in section 2, some seemed to incorrectly assume a consistency in the rules between EU COM and that of other jurisdictions. This implies that those businesses may be

underestimating the likely cost. Some businesses that do not currently establish and report COO were concerned about how they would even source the necessary supply chain information (many smaller retailers work through third parties, not direct with manufacturers) and costs would likely be of a greater magnitude (relative to the business size) as there would be little pre-existing data to work with.

- Product complexity; where products comprise a large number of components manufactured across a number of countries, some businesses recognised that this could mean increased time and administration in ascertaining the right COO¹⁷. Complexity links to sector, in that the cars, electronics and toys businesses tend to be manufacturing / retailing more complex and multi-component products than those in the ceramics sector.
- Business size / resources; some businesses have individuals or small teams dedicated to managing product compliance and import / export requirements, whilst some employ specialist consultants to provide advice to keep them compliant. Not only are these businesses sufficiently equipped to manage compliance efficiently and effectively, they also do not view such compliance as being an additional cost i.e. the teams are already in place and tasked with managing this type of requirement. The businesses with these resources tend to be larger businesses with the resource to support such activity. Smaller businesses – especially those where the person with responsibility for managing COM would likely be the owner or MD – were more concerned about the potential drain up on their time.

The extent to which respondents anticipated costs for designing and implementing label changes was based upon hypothetical considerations of exactly what might be required. It is important to note that several respondents had explored the draft proposals and found

¹⁷ Some businesses that assumed they would be using a ‘last substantial change’ rule for defining COO did not think this would be very difficult to define (though this might imply lack of understanding in those businesses on the range of ways in which ‘last substantial change’ can be defined. On the other hand, some products have very simple supply chains i.e. wholly manufactured in one country.

them too vague to be useful, but were also concerned by the lack of clarity on how COM would need to be complied with.

Where they assumed substantial costs, this was because they believe that the EU COM requirements would be substantially different from their current practices in terms of:

- Mark design and information required – if the EU COM had a distinct label design, businesses would need to design this onto their product or packaging. One trade association highlighted that a lot of small manufacturers already do origin stamping, but it is often quite personalised in design; they were therefore nervous of what the additional cost and practicality would be for such small operations of adopting a new label / stamp. The level of information required was also a consideration. One toy manufacturer being concerned that they would have to provide COO labels in a range of languages, requiring complete re-design of packaging.
- Where the mark needs to be – level of concern about this was in part linked to the extent of information required i.e. the more information, the less feasible it would be to place the mark on the product itself (for some products businesses felt this could be technically impossible; for others undesirable in terms of maintaining the aesthetic appeal of the product). Businesses were united – regardless of sector – in stating a preference for the label to be allowed to be placed on the packaging – or ideally instruction booklets / literature – rather than having to be placed directly on the product, which would also incur large costs for reshaping stamps / moulds etc.

One business felt that the potentially substantial costs of label redesign and stamping could be reduced if businesses are to be given a ‘period of grace’ in which to comply; this, they said, would allow them to update their product / packaging design as they would do on an annual basis anyway (as opposed to having to fit in an extra round of this).

4.2.3 Ongoing administration costs

Table 8: Summary of costs associated with administration

Type of cost	Nature of cost	Costs range quoted
Delays to importing goods, monitoring and checking of COO	<ul style="list-style-type: none"> • Ongoing • Per product delayed 	<ul style="list-style-type: none"> • Costs cited between £6,000 and £2.5m

Most businesses envisaged that ongoing monitoring of product COOs would require a limited amount of resource and – as for establishing COO in the first place – many respondent businesses had individuals / teams allocated to manage this.

Where a shipment is held at the border or returned, the cost to both importer and exporter could be severe. However, very few businesses anticipated that there could be delays to importing goods through COM; this was for three reasons:

1. Confidence that they would correctly comply.
2. Expectation that with the range of checks conducted, verifying the presence of an OM would not add much time to the process (albeit some respondents recognised that the delay could be substantial if the COO accuracy was questioned).
3. For one business, expectation that even if they were not compliant on COO, this would hardly be a priority for enforcement agencies. The respondent felt confident that they could persuade the importer to take the goods regardless as missing OM would be a minor issue compared to cancelling or holding back a shipment.

4.2.4 Longer term effects

Table 9: Summary of costs related to the longer term

Type of cost	Nature of cost	Costs range quoted
Losing sales (due to consumer preference for other COOs or effect on product aesthetics), incurring penalties due to non-compliance.	<ul style="list-style-type: none"> • Ongoing • Per product (extent depending upon product-specific factors) 	<ul style="list-style-type: none"> • Reduction in sales from 0.5% to 2% of current

Whilst recognising that some consumer purchasing decisions will be influenced by COO, most businesses seemed to feel that this was already priced in to market share i.e. those consumers who cared about COO were already making decisions accordingly, whilst most consumers are reconciled to the realities of where most product manufacture takes place and buy on the basis of brand / price etc anyway.

For the same reasons as outlined in section 4.2.3 on products being delayed at borders, very few businesses could envisage a scenario in which their products would be non-compliant. Even where they acknowledged the possibility, respondents anticipated that the public authority would simply require proof of COO and potentially re-labelling etc, rather than giving the business a fine or similar.

The main cost risk in this category was aesthetics, but only if the EU COM required that the label had to go on the product. Even then, for most respondents outside the ceramics sector, that a stamped or moulded label would damage aesthetics to the point of affecting market share was deemed unlikely, especially as competitors would be in the same position. Current COM requirements in other countries tend to take a pragmatic approach; label on the product unless it is not practical or could severely impair purpose or appearance.

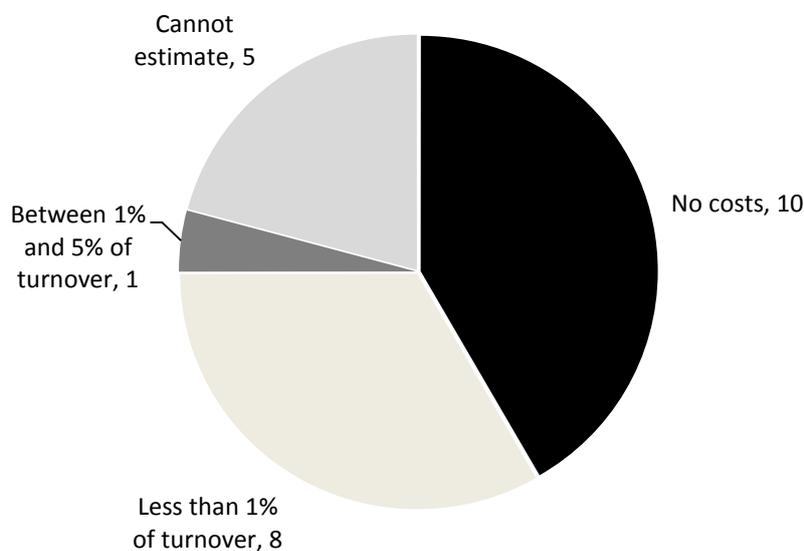
As very few businesses recognised these potential costs, there were no clear links to particular profiles of business envisaging these arising.

However, a final factor affecting the scale of costs cited across all categories was linked to business size, in that larger businesses tended to have a larger number of products i.e. the costs of COM would have to be multiplied to hundreds of products and so could be very large in total.

4.2.5 Overall costs and extrapolation to the UK

Respondents were also asked at the end of the interview to summarise their perceptions of the costs of COM and provide an estimate of cost as a % of turnover. The chart below summarises the responses from businesses:

Figure 4: Business expectations of the total scale of impact of COM on costs [n=24] [on-going or one-off]



Overall, whilst no business saw the prospect of COMs as potentially financially disastrous (it was more viewed as an inconvenience) even <1% of revenue for some of the businesses covered in the research is a substantial amount in real terms.

As noted in section 1, the literature review identified a small number of studies that quantified the costs of country of origin marking, although few relate specifically to the UK and none relate to the product sectors this study focused upon. The range of responses above are in line with the findings from some other studies identified in that evidence review; for example:

- The US International Trade Commission study (1996) found that businesses reported the administration burden of complying with origin marking legislation to be <1% of sales.

- An independent 2005 study on trade barriers affecting the textile industry found that it would cost between one and two Euros to include a COO label on each apparel / footwear product¹⁸.

The following process uses study results and some assumptions informed by BIS to attempt a calculation of potential impact on UK businesses.

- The Commission estimate that - EU wide - the value of sales of consumer products covered by COM would be around €1trillion.
- Assuming the UK accounts for roughly 14% of EU GDP, this suggests the value of sales of consumer products covered by COM in the UK to be about €140bn, changing to around €70bn when translating retail prices into ex-factory prices.
- Assuming that responses from the four sectors explored in this study can be extrapolated if 58% of businesses are affected and if the effect on turnover for these businesses equates to around 1%, this means a cost of around €400m.

Whilst this figure is a crude approximation, it demonstrates that even a minor increase in per business cost means a very large aggregate cost to economic operators as the COM would cover such a large range. The majority would be a one-off cost to business, but could be very damaging to some smaller businesses and in terms of effects up and down the supply chains.

Another factor to consider is that the sample responding to the research seemed to be generally interested in – and often already complying with – OM and predominantly comprised large exporters. It is reasonable to assume the average cost impact on businesses more widely would be greater as they would need more time and resource to familiarise and adapt to COM requirements. They may also be more

¹⁸ Market Access Information and Analysis (MAIA) and Institut Francais de la Mode (IFM) (2005) Market Access Analysis to identify and update the existing information on trade barriers in third countries affecting EU exports of textile and clothing, footwear and leather, Final report March 2005.

likely to find themselves non-compliant and so experience detrimental effects.

It is difficult to be precise about the proportion of UK SMEs that might have origin marking responsibilities under the proposed regulation and that also have experience of exporting to markets which already have COM. However, it is clear that the proportion is very small. Based on estimates of the number of registered enterprises in the UK manufacturing sector¹⁹, and HMRC data on the number of UK exporters by sector, size and export market, it would appear that only a small proportion of enterprises, (10-15%) have experience of exporting outside the EU and an even smaller number will have experience of exporting to countries with COM requirements. In addition, a disproportionate number of those that do have such experience are larger businesses, not SMEs.

Finally, it is important to note that if the EU COM rules differ significantly from those of major trading partners or existing voluntary schemes on label design requirements then some businesses envisaged there would be higher costs than reported.

4.3 Enforcement costs

For public sector authorities / agencies, the magnitude of costs - and on whom they would fall - were felt to depend upon the level of priority given to COO enforcement and the level of intelligence likely to be received on it.

- If the level of priority were high, additional resource for checking and interception etc would be required (increasing Government costs) or would need to be diverted from current priorities (potentially leading to detrimental effects in those areas).
- If the level of priority on COM was low, this would likely mean a low level of inspection and enforcement on it; so marginal costs, but essentially preventing achievement of any of the hypothetical benefits discussed in the

¹⁹ Sources: Business population estimates: <https://www.gov.uk/government/statistics/business-population-estimates-2013>

Data on exporter numbers: <https://www.gov.uk/government/statistics/uk-trade-in-goods-by-business-characteristics-2013>

section above. Though even in this low-priority scenario, there may still be initial costs through key individuals familiarising themselves with the COM requirements and training staff on these. One organisation cited resource use of half a day per staff member needing to be trained (they estimated 66 staff).

Overall, even if a low priority were placed on COM enforcement, most enforcement agency representatives felt that the one-off resource requirements from COM would place a further strain upon already-stretched resources.

From the literature review, US Customs (1996) estimated a cost of between \$1.6m and \$1.8m to administer and enforce COO requirements - primarily salary costs to issue ruling letters, legal costs, and investigations of violations.

4.4 Consumer costs

Most of those respondents envisaging costs for their business did not think that these would be sufficiently substantial to warrant an increase in prices for consumers; 11 said that they might pass costs on, 17 said that they would not. Where they provided an estimate of this, respondents did not envisage it being more than 1% additional of current cost.

4.5 Voluntary origin marking

As well as exploring the potential effects of COM, this study examined the option of voluntary marking schemes where marking has to conform to certain rules such as non-preferential origin rules. The key findings from the study pertaining to this option indicated that it would incur lower costs (none for businesses not wishing to participate) but would be even less likely to generate benefits:

- The stated aims of enhancing consumer safety and reducing counterfeiting would not be delivered by voluntary schemes. No organisations doing this see how it could enable consumer safety benefits; they do it in the hope that it strengthens their brand image, though none could provide clear evidence of this happening.

- Voluntary schemes may be less likely than COM to generate benefits as COM could create the potential advantage for some businesses of forcing their competitors to make their COO clear (obviously not a feature of voluntary schemes). Businesses felt there would be no benefit arising from a voluntary OM scheme as there would be no statutory obligation to comply, albeit such schemes can and do have internal auditing processes to ensure the voluntary ‘Made in...’ label is not misused.
- Some costs would still arise for businesses taking up voluntary schemes, though by definition no business would be obligated to take up a scheme and incur such costs.
- Up front one-off costs – in particular to fit around mark design and placement on a product - would still arise through participation a voluntary scheme, particularly where this has auditing attached which encourages participating businesses to properly comply.
- The main ongoing administration cost arising through a voluntary OM scheme would be where this has auditing attached and so the participating business needs to ensure their COO is accurate and up to date on the product lines. No enforcements or delays at borders would arise from voluntary schemes.
- Public sector enforcement costs would not be incurred under voluntary schemes, except in cases where Trading Standards are contacted in relation to misleading COO claims, though this can happen currently anyway.

5 Appendix A: Full costs table

Table 10: Overview of full costs

Type of cost	Number acknowledging at least a marginal cost	Costs quoted
Familiarising with the COM rules [one-off]	6	<ul style="list-style-type: none"> £10,000+ associated with procurement of legal advice. 1 day per staff member for familiarisation and 10% additional staff hours for management. Half a day of time. Respondent estimated 10-15 days of their own time at £300 a day plus expenses for trips to Brussels for company meetings, so £6,500 in all Opportunity cost of approx. £5,000 - based on £100 per hour, 300-400 products.
Ascertaining the correct COO [one-off]	8	<ul style="list-style-type: none"> One business currently pays 100K a year for this service; expects this might go up by 10% if COM was introduced. If it proves complex/ hard to ascertain correct COO, 1 day of staff time at £500 per product, with up to 30 products. A few months work for the respondent. A week to deal with 6-10 suppliers, so £3,500 based on £100 an hour.
Monitoring and checking of	6	<ul style="list-style-type: none"> Costs of staff needed to carry out physical checks; 2 or 3 heads at £20K a year so £40-60K. Although less time consuming than initially

Type of cost	Number acknowledging at least a marginal cost	Costs quoted
COO [ongoing]		<p>ascertaining, might take 1 staff day per month, so 12x £500 over a year, per product.</p> <ul style="list-style-type: none"> • 0.5 days, plus £5,000 for an additional 1 week visit to suppliers.
Designing label onto products [one-off]	6	<ul style="list-style-type: none"> • <i>None able to quantify but most felt this would be marginal.</i>
Implementing design change [one-off]	13	<ul style="list-style-type: none"> • If there were additional tooling costs involved, it could be approx. £200 per tooling change per supplier and they have about 10-15 suppliers. • Could cost £1000 per new mould, which may be required per product line, although this would depend on where the factory is located e.g. Moulds in China could be more like £500. • Hundreds of thousands of pounds per mould requiring retooling - maybe £300,000 per product. Printing a label would be relatively cheap but would still require testing for durability/ permanence so maybe 1p more per unit. • For metal parts, retooling can cost £30-£40K (even more for a large item). If the product

Type of cost	Number acknowledged-geing at least a marginal cost	Costs quoted
		<p>has not previously required a stamp, there is the cost of adding an additional process-harder to quantify. If each part however small has to be marked, this has to be multiplied up by the 169,000 parts they carry. Suppliers would add a small charge for having to stamp every time.</p> <ul style="list-style-type: none"> • Retooling the back of the product, where the label might be, would cost about £5,000. • Worst case scenario: embossing at £1000 per product rework required. Best case scenario: adding a label to a pack - maybe £100-£200 per product (assuming not already labelled with COO). • Complete retooling of one product could cost £200,000 and there are 100 product lines. Might simply drop that product from the range if a supplier refused to change tooling.
Delays to importing goods [ongoing]	5	<ul style="list-style-type: none"> • <i>Most unable to quantify</i> • It could double or quadruple warehouse footprint and facilities at the two UK sites are already tight. In India, estimates £2.5m if additional warehousing was required, but this is very approximate.

Type of cost	Number acknowledging at least a marginal cost	Costs quoted
Losing sales (due to consumer preference for other COOs or effect on product aesthetics) [ongoing]	4	<ul style="list-style-type: none"> • Might make a small difference if there was a choice - 'Made in China' might bring sales down by 0.5%. • Would expect it to knock 1-2% of sales, maybe less if firmly regulated.
Incurring penalties due to non-compliance [ongoing]	1	<ul style="list-style-type: none"> • <i>Not able to quantify but felt it would be substantial.</i>

6 Appendix B: Bibliography

The following list shows the reports reviewed as part of this study:

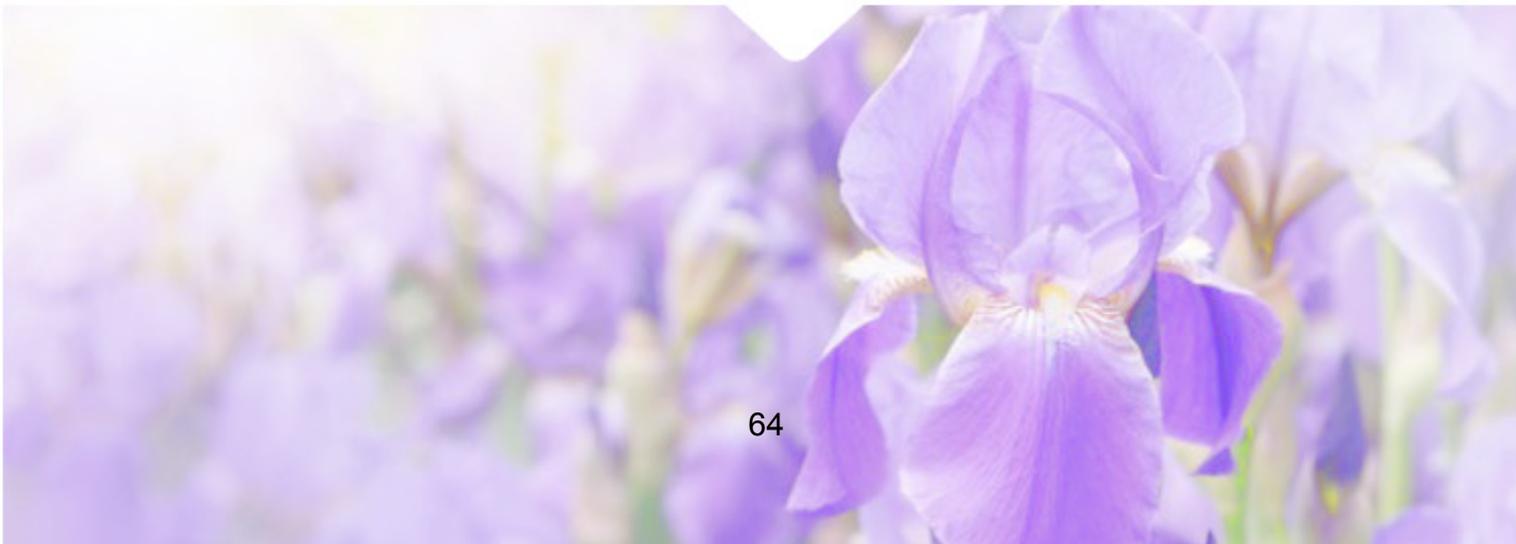
- Patricia Augier, Michael Gasiorek and Charles Lai Tong (2005) - The impact of rules of origin on trade flows

- Brenton, P et al (2003) - Making EU Trade Agreements Work; the role of Rules of Origin - *The World Economy*, 26, pp. 755-769
- Cadot, O. Et al (2006) - Product Specific Rules of Origin in EU and US Preferential Trading Agreements: an assessment - *World Trade Review*, 6 (2), pp. 199-224.
- Carrere, C. (2004) - Are different Rules of Origin equally costly? Estimates from NAFTA - CEPR discussion paper no. 4437.
- CEPR - Trade and Investment: Balance of Competition Review (2013)
- Estey Centre for Law and Economics and International Trade (2003) - Mandatory Country-of-Origin Labelling (MCOOL), Its Economic and Trade Policy Implications
- European Advisory Service (2004) - The introduction of mandatory nutrition labelling in the EU impact assessment undertaken for DG Sanco - European Commission p51.
- European Commission DG for Agriculture and Rural development - Study on mandatory origin labelling on pig products and meat products etc (2013)
- European Commission - Consideration of an EU origin marking scheme - consultation process, analysis and next steps (2004)
- European Commission Staff Working Document: Impact Assessment (2005) <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52005SC1657>
- European Parliament Briefing- Indications of Origin Marking on Products (2013)
- Foreign Trade Association position (2004) - Consideration of an EU Origin Marking Scheme
- Elise Golan (2001) - Economics of Food Labelling
- Michael K. Huia & Lianxi Zhou (2000) - Linking Product Evaluations and Purchase Intention for Country-of-Origin Effects
- Gary S Insch (2004) - The impact of country-of-origin cues on consumer perceptions of product quality: A bi-national test of the decomposed country-of-origin construct
- Klint, Olle (Jönköping University, Jönköping International Business School) (2005) - EU Origin Marking - A Study of Swedish Meat Consumers

- Kotler, P; Gertner, D (2002) - Country as brand, product, and beyond: A place marketing and brand management perspective
- John P. Liefeld (2004) - Consumer knowledge and use of country-of-origin information at the point of purchase
- Jayson L. Lusk (2006) - Consumer behavior, public policy and country of origin labelling
- Market Access Information and Analysis (MAIA) and Institut Francais de la Mode (IFM) (2005) - Market Access Analysis to identify and update the existing information on trade barriers in third countries affecting EU exports of textile and clothing, footwear and leather - Final report.
- OECD Implications of global value chains for trade, investment, development and jobs (2013)
- PECC trade forum (2003) - Notes on Rules of Origin with Implications for Regional Integration on Southeast Asia
- Alejandro Plastina (2011) - Market and Welfare Effects of Mandatory Country-of-Origin Labelling in the U.S. Specialty Crops Sector: An Application to Fresh Market Apples
- Tumurchudur, B (2005) - Rules of Origin in North-South Preferential Trading Arrangements with application to NAFTA - Review of International Economics, 13 (3), pp. 501-517.
- US ITTC - Country of Origin Marking: Review of Laws/regulations/practices (1996)
- VanSickle et al. (2010) Country of Origin Labelling: A Legal and Economic Analysis - International Agricultural Trade and Policy Centre



Databuild Ltd, 21 Graham Street, Birmingham, B1 3JR | +44 (0) 121 687 1144
research@data-build.co.uk | www.data-build.co.uk





© Crown copyright 2015

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated.

To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3 or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

Where we have identified any third party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at www.gov.uk/bis

Any enquiries regarding this publication should be sent to us at enquiries@bis.gsi.gov.uk,

BIS/15/94