Bilateral and regional Preferential Trade Agreements (PTAs) are usually praised by their supporters for being essentially trade-creating (as they reduce or eliminate barriers to trade across international borders), and for the opportunity they give to their participants to move more closely and more quickly to free trade than could be expected on a multilateral level. However, an aspect that is less known about these agreements is the cost of compliance they entail for businesses.

A recent research paper titled "the nuisance cost of tariffs" published by the Australian Productivity Commission (an independent research and advisory body to the Australian government on a range of economic, social and environmental issues affecting the welfare of Australians) warns that PTAs can entail high compliance costs for businesses, which in the end are passed on consumers, being incorporated in the costs of goods and services. And the more PTAs a country has signed, the higher these costs are for businesses, due to the need to comply with numerous and fragmented requirements that vary from an agreement to another.

For importers, complying with a PTA implies, firstly, the need to train or hire experienced staff capable to deal with the technicalities of the Agreement (e.g; understand the rules of origin, cumulation regimes and other requirements that it is necessary to fulfil to benefit from the preferential treatment), as well as to put in place the procedures and controls that are necessary to allow them to access preferential and concessional rates of customs duties. The main cost associated with these activities is the preparation of the paperwork necessary to demonstrate eligibility of imports for the tariff preference or concession. For instance, importers typically need a certificate of origin from their foreign suppliers, which can take long to obtain, especially when shipments contain multiple parts from multiple suppliers. Moreover, the importer may need to ask his supplier to adapt the production processes (i.e. to change the way he makes his goods) to meet the local content requirements under the rules of origin (RoO) associated to that PTA so that his products can qualify for the preference in the importing country. Apart from the certificate of origin, additional documents may be needed by Customs. An example is the certificate of non-manipulation in case goods are transshipped or move in transit in a third country before they reach their destination, or other factual or concrete evidence related to products (e.g.; marking or numbering of packages) that can be requested by Customs for controls. This obviously comes at a cost, that the suppliers pass along the supply chain and that, in the end, is burdened on the final consumer.

For exporters, complying with a PTA entails similar costs. First, because they need to deal with all the requirements needed to demonstrate eligibility of their products for a preference or concession in the importing country. This includes the need to prepare the paperwork necessary to obtain a certificate of origin from Customs before shipping the goods, but also to

adopt inventory and accounting systems able to trace the value of all inputs and materials used in their manufacturing process and to calculate exactly the increase of value that the non-originating materials receive as a consequence of the working o processing operations conducted in their country). Where these requirements are not met, exporters may be obliged to adapt their goods so that they can meet the origin criteria in the Agreement and qualify for preferences in the country of import. For instance, if their goods are subject to a processing or incorporate parts originating from a country external to the PTA, they may need to revise their sourcing processes strategies, reorienting their supplying chains towards countries that are beneficiaries of a preferential treatment, to avoid that the importer will incur in customs duties on his goods, so loosing the benefits of the PTA.