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POLICY SESSION ON “HOW TO GET MORE SMES TAKING ADVANTAGE OF FREE TRADE AGREEMENTS (FTAs)”

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A. GENERAL COMMENTS ON TO GET MORE SMES TAKING ADVANTAGE OF FTAs

A good number of success stories have been written by SMEs in connection with the Free Trade Agreements (FTAs) signed by the EU, which is very encouraging. I would like to highlight that the number of SME success stories could and should be increased. Let me explain how.

Under many FTAs, to get a zero rate tariff, a European exporter must demonstrate that his product is wholly produced in the EU, or sufficiently processed in the EU. These requirements are defined by the so-called “rules of origin”. For example, an FTA will say that 60% of the value of a given product must be of demonstrated EU origin (concept of minimum EU content).

Compliance with the rules of origin must be demonstrated by submitting a “certificate of origin”.

When we look at the EU exports of machinery to South Korea in 2016, we see that only 48 % of these exports got the zero tariff¹. Does this mean that the remaining part - 52% - was composed of products having an “insufficient EU content”?

No !! Within that 52% chunk, you find a lot of goods that did have a “sufficient EU content” but that were exported by SMEs ignoring that they could ask for the zero tariff. So they paid the normal custom duty.

¹ Commission report on the implementation of the EU FTAs – COM (2017) 654 final of 9.11.2017, page 10



And within that 52% chunk, you also find goods with a sufficient EU content for which SMEs decided not to apply for the zero tariff, because they found the rules and procedures too complicated.

Ignorance or complexity results in billions of EUR being paid every year by companies in undue customs duties, as has been shown by a study analysing 18 FTAs².

And finally, these statistics do obviously not count the trade flows that did not happen because numerous companies ignore the existence of FTAs.

So we have a situation where the FTA advantages are not fully used. For BusinessEurope, this calls for working towards 3 goals:

1. First, **enhancing basic information on FTAs**, in order to increase awareness of the opportunities they create and of the mechanisms for getting reduced customs duties. Information should target both SMEs that know nothing about FTAs, and SMEs that trade with FTA countries but ignore their special tax advantages.

BusinessEurope welcomes very much the SME Chapter included in the EU-Japan agreement, which commits both sides to pro-actively offer information and create SME contact points to help companies who seek access to each other's market. SME chapters should be included in all the future FTAs.

2. Second, **compliance with the rules of origin should be made less complex.**

It should become easy for SMEs to demonstrate that a product or a service qualifies for a preferential tariff. The certificates of origin should be delivered in all Member States through simple and affordable procedures.

3. Third, **all member states should prepare an action plan** in order to increase companies' utilization of tariff reductions in the EU FTAs.

B. PRACTICAL APPROACHES RECOMMENDED

1. Enhance basic information on FTAs

In a number of countries, national information services exist, providing access to market access databases. An EU market access data base exists also. But we need in addition:

- real "hands-on" manuals guiding SMEs in the labyrinth of information that exists

² According to a Commission-sponsored study, duties at a level of about 3.5 billion EUR could have been saved in 2016 if FTAs between the EU and 18 partner countries had been fully used (Nilsson and Preillon study, 2018).



- an EU website for SMEs containing a list of all existing FTAs. For each FTA, a list of “must know” should be given, presented in an easy way so that SMEs can read and learn more.

FTA-awareness should be raised through joint strategies involving business, national authorities and the Commission.

2. Make compliance with the rules of origin less complex

SMEs face many difficulties, which can be exemplified by the following 4 examples:

1. SMEs can have difficulties in understanding the different tariff lines and how they relate to their own business. In services, for example, the definition and classification of certain service professions differ enormously according to countries. This can lead SMEs stopping attempts to take advantage of FTAs.
 - The WTO should push for harmonisation of the classifications of service professions.
 - Enhanced support services should be accessible to SMEs for understanding and fulfilling the administrative procedures linked to the rules of origin.
2. Some Customs Authorities already provide guidance on how to understand and apply tariff lines, but this is often not enough to help SMEs to classify their products and get the preferential treatment. A growing problem is that the international product classification systems (the so-called HS- and CN-codes) are not updated to categorise new types of products.
 - We call Member States to work for the modernisation of the customs code classification systems.
3. When an SME considers exporting to numerous markets, it is difficult to map out quickly the different rules of origin that the different FTAs define for a given product. Information is typically very dispersed.
 - We need a central EU digital tool where all relevant information is made accessible in a user-friendly fashion. There are Commission plans in this direction, but their ambition should be taken one level up. The EU digital tool should be inspired by the German Customs' system.

The German Customs have created a single database that describes, for any product, the preferential tariff set by each of the EU trading partners. This database also describes the rules of origin that a product must comply with in the various export markets in order to benefit from a preferential tariff. Thanks to this, German companies must not navigate through multiple and often complicated national websites.



4. Finally, rules of origin are enforced differently across FTA countries. In many cases European companies experience that the customs authorities in the FTA countries require more documentation than necessary according the rules of origin set out in the FTA with EU.
 - The Commission should use local offices around the world more assertively to manage shortcomings in partner countries' administration of FTAs.

3. Preparation of action plans by member states

Action plans should be developed in each member state, with the objective that more SMEs taking advantage of FTAs.

Inspiration can be found in the following Finnish best practices, which I give for illustrative purposes - but there are others:

- the Finnish Customs have a lot of direct contacts with companies and have therefore the ability to identify and segment which companies export and to which areas;
- the Finnish Customs are consequently able to target their communication and training activities to the companies most interested and potentially impacted by given FTAs.
