



The Use of the EU's Free Trade Agreements

Exporter and Importer Utilisation
of Preferential Tariffs

Produced in collaboration between
the National Board of Trade Sweden
and the United Nations Conference
on Trade and Development (UNCTAD)

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About the National Board of Trade

The National Board of Trade is a Swedish government agency responsible for issues relating to foreign trade, the EU Internal Market and to trade policy. Our mission is to promote open and free trade with transparent rules. The basis for this task, given to us by the Government, is that a smoothly functioning international trade and a further liberalised trade policy are in the interest of Sweden. To this end we strive for an efficient Internal Market, a liberalised common trade policy in the EU and an open and strong multilateral trading system, especially within the World Trade Organization (WTO).

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The findings, interpretations and conclusions expressed herein are those of the authors and do not necessarily reflect the views of the United Nations or its officials or Member States.

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Preface

The issue of free trade negotiations has increasingly become the focus of the trade policy agenda. As such, it is increasingly important to base negotiating proposals and policy decisions on empirical data and objective facts. This report – prepared in collaboration between the National Board of Trade Sweden and the United Nations Conference on Trade and Development (UNCTAD) – constitutes a first effort to analyse the use of tariff preferences in free trade agreements from both parties and from both an exporter and importer perspective. The observations and findings are based on the EU's free trade agreements with a number of developed and developing countries. The EU is one of the principal negotiators of free trade agreements on a global level and one of the few free trade parties where data on preference utilisation is – more or less – publicly available. The findings may, however, be relevant for all free trade agreements in force and under negotiation.

This report challenges some enduring myths on preference utilisation in free trade agreements. For example, it is commonly believed that free trade agreements, in general, are not used to a high degree. Empirical data, on the other hand, as presented in this report, indicates that the EU's free trade agreements, in general, are used to a high degree and that border-related aspects of implementation of the free trade agreements in some cases might be more cumbersome than the provisions of the free trade agreements themselves. In addition, the report indicates that both the EU and partner countries – and both exporters and importers – are benefitting from the use of the EU's free trade agreements. However, there is still a great potential to increase the preference utilisation in the EU's free trade agreements in the future.

The focus of this report is on the EU's free trade agreements, but – hopefully – at some moment in time, the analysis of the use of free trade agreements might be expanded to also cover other regions, as soon as data on preference utilisation become available. Ideally, however, analyses of the utilisation of preferences should be carried out by the free trade parties themselves with the objective to target 'pockets of underutilisation' and facilitate the utilisation of preferences by all – different sectors of the economy, and large and small companies alike. UNCTAD and the National Board of Trade Sweden hope that the report "The Use of the EU's Free Trade Agreements: Exporter and Importer Utilisation of Preferential Tariffs" will inspire progress in the analysis of preference utilisation of free trade agreements based on empirical evidence in the future.

Stockholm, January 2018



Anna Stelling
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Geneva, January 2018



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Executive Summary

In the last few decades, there has been a proliferation of free trade agreements on a global level. The European Union (EU) is one of the most prolific negotiators in recent years. Even though the scope and depth vary across the free trade agreements, they all have the overarching purpose of reducing or removing tariffs and other obstacles to trade between the partner countries.

In reality, however, the reduction or removal of tariffs within a free trade agreement through so-called tariff preferences does not necessarily mean that all products can move freely across the borders. For example, parties of a free trade agreement have to comply with substantive and administrative requirements to prove the origin of the products in order to benefit from tariff reductions. However, companies may be unable to comply with these requirements. Instead of taking advantage of the tariff reduction, companies may have to pay the tariff that applies to other countries that are not part of the free trade agreement.

With this as a background, it is increasingly relevant to analyse to what extent companies in the EU and its partner countries actually use the existing free trade agreements in order to obtain tariff reductions for their products. In order to facilitate the analysis, this report presents data on the use of the possible tariff reductions for both parties of the EU's free trade agreements, and from both an exporter and importer perspective. The report also presents data on the values of exports and duty savings obtained by using the EU's free trade agreements – as well as the values of exports and duty costs paid by not using the EU's free trade agreements.

The main findings from the analysis are the following:

- About two-thirds of EU exports to partner countries use the free trade agreements whereas the corresponding number for partner country exports to the EU is as high as 90 percent. These numbers are, however, based on the value of exports and may not necessarily imply that most companies use the free trade agreements. This means that even though most trade in terms of value takes advantage of the tariff reductions, there might still be a large number of smaller companies that do not take full advantage of the benefits of free trade agreements. The import perspective mirrors the export perspective.
- The value of exports using the free trade agreements is higher for EU exporters than for partner country exporters – the net difference is 33 billion euro. However, the value of exports not using the free trade agreements is also considerably higher for the EU than for partner countries – the net difference is 60 billion euro. This amount is a lost opportunity or future potential for EU exporters.

- The value of duty savings by the partner country importers of using the free trade agreements is higher than the value of duty savings by the EU importers – the net difference is 1.5 billion euro. However, the absolute value of duty costs by partner country importers of using the free trade agreements is also considerably higher for the partner countries than for the EU – the net difference is 3.1 billion euro. This amount represents a lost opportunity or future potential for partner country importers
- The largest under-utilisation of the EU's free trade agreements is found among EU exporters in their trade with Tunisia, Morocco, Egypt, Lebanon and Mexico. The one-sided under-utilisation of the possibilities for tariff reduction in these free trade agreements account for about 40 percent of the total value of exports or duty costs of not using the EU's free trade agreements (or as much as 80 percent if only the medium-sized free trade agreements are considered). This one-sided under-utilisation of the possibilities for tariff reduction is, accordingly, a large lost opportunity or future potential in the use of the EU's free trade agreements. This one-sided under-utilisation of preferences might be border-related and in need of trade facilitation initiatives. The import perspective mirrors the export perspective.
- The duty savings obtained by using the EU's free trade agreements benefit both the EU and partner countries. The duty savings are on average about 6 percent of the import values for both parties of the EU's free trade agreements. This implies that both parties benefit from the use of the EU's free trade agreements to a fairly equal degree at a total level.

Even though the use of the possibilities of tariff reductions in the EU's free trade agreements is on average about 75 percent, it is important to identify possible pockets of low utilisation at a more detailed level. The identification of possibly cumbersome provisions and their causes is an important step to improving the export and/or import performances of the EU and its partner countries, and the possibilities to actually benefit from tariff reduction in free trade agreements. These pockets of low utilisation have to be identified in the individual free trade agreements and at an industry and/or product-specific level. It is also important to identify the main incentives or 'drivers' for using and/or obstacles for not using the EU's free trade agreements in order to provide more empirical facts for the understanding of the use of free trade agreements in reality. This will be the focus of future research by the National Board of Trade Sweden and UNCTAD.

This report aims to inspire future analysis of the use of free trade agreements by making data on their use more publicly available. The monitoring of the use of free trade agreements should preferably be an ongoing exercise in order to identify and analyse to what extent exporters and importers actually use them in their business decisions, in order to make the free trade agreements work for all.

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Introduction

In the last few decades, there has been a proliferation of free trade agreements on a global level. The European Union (EU) is one of the most prolific negotiators in recent years. Even though the scope and depth vary across the free trade agreements, they all have the overarching purpose of reducing or removing tariffs and other obstacles to trade between the partner countries.

In reality, however, the reduction or removal of tariffs within a free trade agreement through so-called tariff preferences does not necessarily mean that all products can move freely across the borders. For example, parties of a free trade agreement have to prove the origin of the products in order to benefit from tariff reductions. The process of proving origin for products can in some cases be so demanding that companies, instead of

taking advantage of the tariff reduction, choose to pay the tariff that applies to other countries that not are part of the free trade agreement.

With this as a background, it is increasingly relevant to analyse to what extent companies in the EU and its partner countries actually use the existing free trade agreements in order to obtain tariff reductions for their products. In order to facilitate the analysis, this report presents data on the use of the possible tariff reductions for both parties of the EU's free trade agreements, and from both an exporter and importer perspective. The report also presents data on the values of exports and duty savings obtained by using the EU's free trade agreements – as well as the values of exports and duty costs paid by not using the EU's free trade agreements.



The following questions are addressed in the analysis:

- What is the use of the EU's free trade agreements by EU and partner country exporters and importers?
- What are the exporter trade values of using and not using the EU's free trade agreements?
- What are the importer duty values of using and not using the EU's free trade agreements?
- Is it possible to identify any under-utilisation of the EU's free trade agreements by any of the parties?
- Who benefits from the use of the EU's free trade agreements?

This report provides an overview and general understanding of the use of the EU's free trade agreements at country level and total level. Forthcoming research by the National Board of Trade Sweden and UNCTAD will, however, analyse the use of the EU's free trade agreements individually at an industry and/or product-specific level in order to identify and target pockets

of low utilisation. It is also important to identify the main incentives or 'drivers' for using and/or obstacles for not using the EU's free trade agreements in order to provide more empirical evidence for the understanding of the use of free trade agreements in reality.

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

Limitations

This analysis of the use of the EU's free trade agreements focuses on the trade in goods covered by the agreements, i.e. the utilisation of the available preferential tariffs, since this is the traditional objective of free trade agreements. The focus of this report is, accordingly, on the preference utilisation of the EU's free trade agreements at country level.

The analysis of preference utilisation is based on trade that actually takes place – companies that opt not to trade with the partner country at all are accordingly not considered in the analysis. In addition, the analysis of preference utilisation does not provide information on the sizes of the companies that utilise the preferences, or the number of transactions that take place. A high preference utilisation at country level might be due to the high utilisation of preferences by one or a few large companies, accounting for most of the value of the traded products. The non-utilisation of preferences by a large number of small and medium-sized companies might not be visible due to the lower values of these transactions.

This report is based on data from 17 EU free trade agreements (including a customs union in the case of Turkey), i.e. the bilateral trade relations, between the years 2009 and 2013, where data on preference utilisation are available on both parties, in order to make a comparative analysis (see Figure 1). Not all free trade agreements covered in this analysis have been in force for five years and the data on the EU's preference utilisation, i.e. EU exports and/or partner country imports, are not always complete for all years in the period. The development of the preference

utilisation before and after the years 2009 and 2013 is not considered in the analysis.

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

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

The data on preference utilisation in this report is based on import data that are collected and processed by the different parties concerned. The existence of different sources for the import data might limit the comparability between the partner countries and the EU due to possible differences in the quality of the data and the different methods possibly used. In addition, the EU's preference utilisation indicators on value, i.e. the values of utilised and non-utilised preferences, as well as the values of preferential duty savings and costs, are calculated based on the EU's 'preference utilisation rates' and constitute, accordingly, approximations. Furthermore, with the only exception of *Switzerland*, specific duties

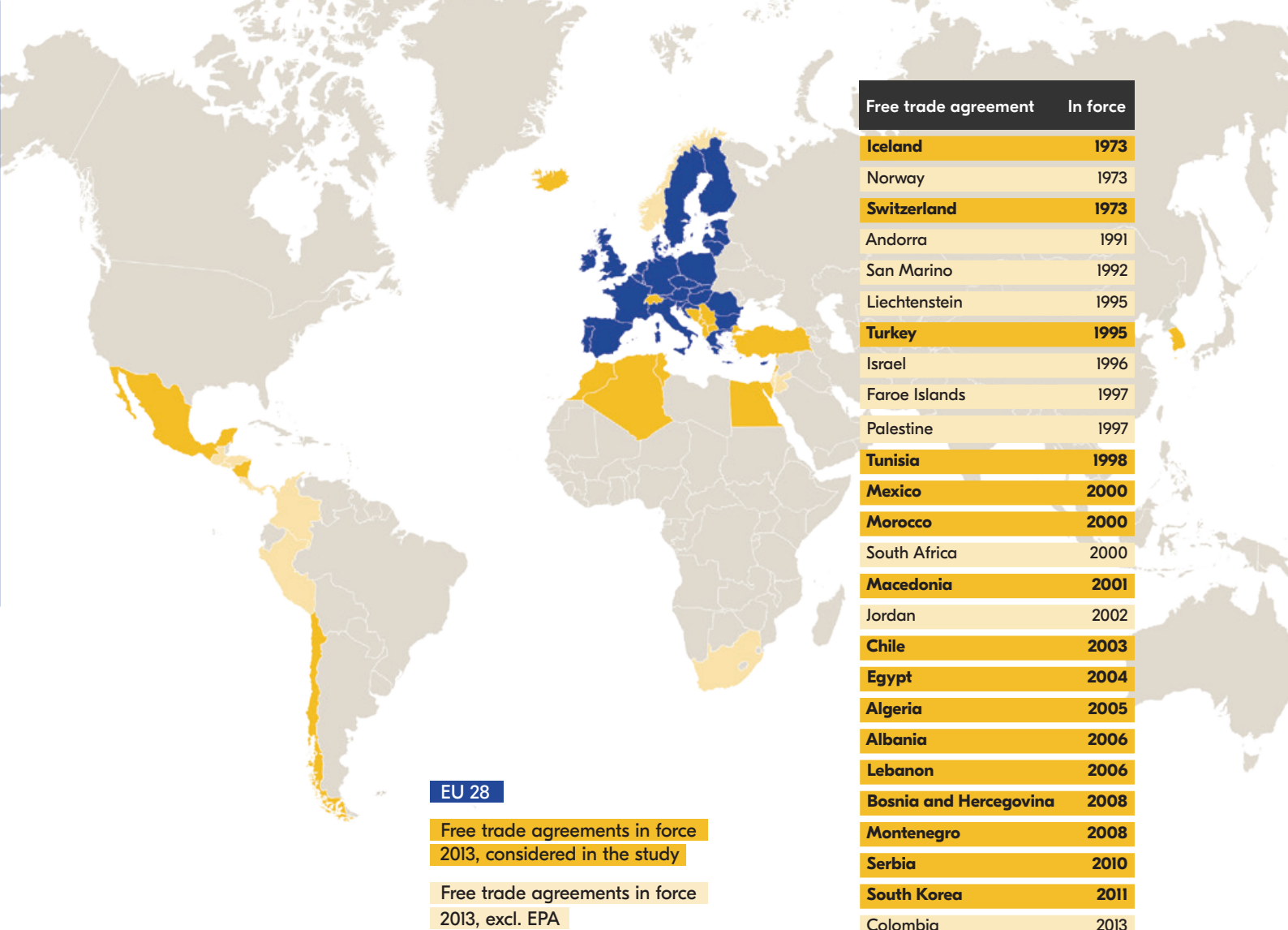


Figure 1: The EU's free trade agreements in force in 2013 and where data on preference utilisation are available for both parties (excl. the European Partnership Agreements, EPA)

Source: Elaborated by the National Board of Trade Sweden

have not been converted to *ad valorem* equivalents, preferences within tariff rate quotas have not been considered in the calculations, and data on the EU's unilateral scheme of preference utilisation, the 'generalised scheme of preferences', are not excluded in the calculations on preference utilisation for the partner countries that benefit from both preferential schedules, etc. [Detailed information on the data sources and methods used can be found in Annex 1.]

The data in this report are presented at country level (mainly at a five-year average) and show a static picture of the preference utilisation of the EU's free trade agreements. [However, a short overview of the development over time between the years 2009 and 2013 can be found in Annex 2.]

This report does not consider the compliance costs of utilising the preferences, or the beneficiaries of the preference utilisation in the business reality (the producers, the exporters, the importers, the users industry or the consumers). An indication of the compliance costs for importers might, however, be provided by the average preference margins of utilised and/or non-utilised preferences. Finally, data on preference utilisation on different products and product groups in the free trade agreement are not presented in this report. This analysis will, however, be developed at a more detailed and product-specific level with regard to individual free trade agreements in future research.

Important concepts

The preferential tariffs are traditionally the main benefits of free trade agreements for the integrating parties. A preferential tariff is a reduced or removed tariff rate in a free trade agreement, which is granted by the importing party for a product originating in the exporting party. These might be seen in relation to the higher general external tariffs, mainly the so-called ‘most favoured nation’ tariffs applied by members of the World Trade Organization (WTO). The difference between the applied ‘most favoured nation’ tariff rate and the preferential tariff rate is normally referred to as the ‘preference margin’. In most cases, preferential tariffs equal duties of zero percent (or possibly slightly higher levels on ‘sensitive’ products) and the preference margins differ between countries and products, depending on the ‘most favoured nation’ tariffs that are applied on the imported products from third countries. In general, the preference margins and the values of preference eligible trade are the main incentives or ‘drivers’ for preference utilisation. Several interrelated indicators and/or measures on preference utilisation are used in this report.

The main indicators are:

- (i) the ‘preference utilisation rate’ (in percent), and
- (ii) the ‘preference savings rate’ (in percent).

The indicator ‘preference utilisation rate’ is based on:

- (iii) the ‘value of utilised preferences’ (in value), and
- (iv) the ‘value of non-utilised preferences’ (in value).

The indicator ‘preference savings rate’ is based on:

- (v) the ‘value of preferential duty savings’ (in value), and
- (vi) the ‘value of preferential duty costs’ (in value).

Two complementing indicators that measure the benefits and/or costs of utilising the preferences are:

- (vii) the ‘average preference margin of utilised preferences’ (in percentage points), and
- (viii) the ‘average preference margin of non-utilised preferences’ (in percentage points).

Traditional analyses on the use of free trade agreements focus on the utilisation of available preferences, i.e. the **‘preference utilisation rate’**, which is a relative measure that indicates the value of trade that takes place under preferences as a share of the total value of trade that is preference eligible (excluding products with ‘most favoured nation’ tariffs at zero percent). The ‘preference utilisation’ rate might be calculated at different levels of aggregation, i.e. at a product-specific level or at country level for all products covered by the free trade agreement. This indicator was first introduced by UNCTAD in 1975 to measure the utilisation rates of unilateral preferences granted to ‘least developed countries’ and is the traditionally most widely used indicator of preference utilisation. In this report, the indicator ‘preference utilisation rate’ is mainly used from an exporter perspective since it only provides information on the values of

preferential exports without consideration of the preferential duty values at imports.

Provided that the ‘preference utilisation rate’ is an indicator of the relative level of trade that takes place, the analysis on preference utilisation in this report is complemented with data on the absolute values of trade that takes place, i.e. the **‘value of utilised preferences’** (the value of exports where preferences are utilised) and the **‘value of non-utilised preferences’** (the value of preference eligible exports where preferences are not utilised). These data present the absolute economic importance of the preferences in different free trade agreements and between the parties.

Since the preference margins and the values of preference eligible trade are the main incentives or ‘drivers’ for preference utilisation for companies, the **‘value of preferential duty savings’** and the **‘value of preferential duty costs’** of utilising and not utilising the preferences are introduced as additional and complementary indicators in this report. These indicators are obtained by multiplying the average preference margins with the values of utilised preferences and the values of non-utilised preferences, respectively. In this report, the data on preferential duty savings and preferential duty costs are used to create an indicator that mirrors the ‘preference utilisation

rate’ but from the importer perspective, referred to as the ‘preference savings rate’.

The **‘preference savings rate’** might be a slightly more exact indicator than the ‘preference utilisation rate’ in the analysis of preference utilisation. It is based on both the preference margins and the values of preference eligible trade, which together constitute the main incentives or ‘drivers’ for preference utilisation of free trade agreements – and not only the total values of preferential trade at the border. In any case, the ‘preference utilisation rates’ and the ‘preference savings rates’ tend to correspond closely at country level even though the ‘preference savings rates’ tend to be slightly higher. The indicator ‘preference savings rate’ is a new indicator of preference utilisation that is introduced in this report.

The indicators **‘average preference margin of utilised preferences’** and **‘average preference margin of non-utilised preferences’** show the average preference margin saved by utilising the preferences in the free trade agreements and/or the average preference margin paid by not utilising the preferences in the free trade agreements. These indicators show to which extent the parties benefit from the free trade agreements and might be used to estimate the compliance costs of utilising the preferences in the free trade agreements.

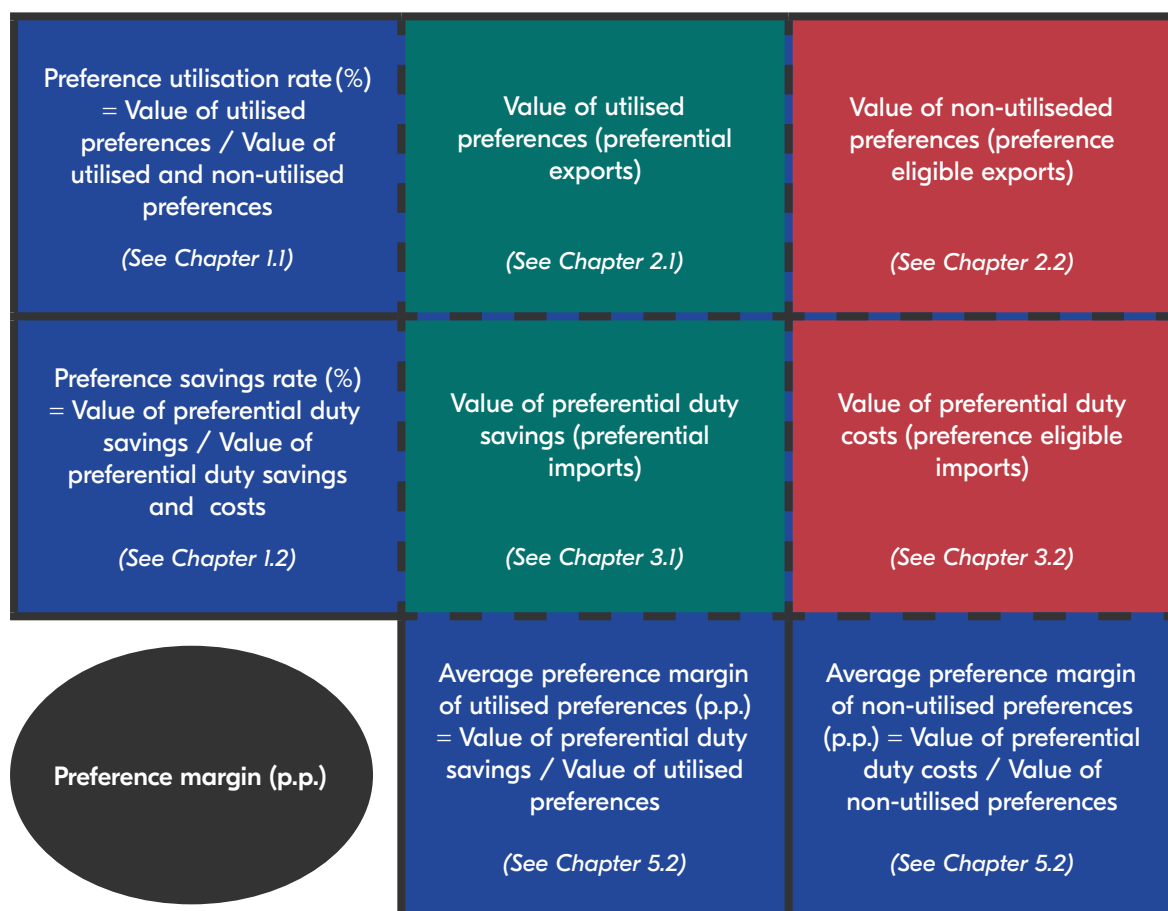
Box I

Should preference utilisation be analysed from an exporter or importer perspective?

Free trade agreements provide competitive advantages to exporters – including producers – if they can utilise the preferences, since their products might be purchased at lower prices by importers as compared to exporters from outside the free trade agreement and/or exporters within the free trade agreement that for any reason cannot utilise the preferences. However, importers, on the other hand, benefit directly from the preference margins, i.e. the preferential duty savings (even though there are certain compliance costs for utilising the preferences, mainly fixed costs, such as fulfilling the rules of origin and related administrative proceedings). The importers depend on different kinds of proof and verifications from exporters and producers along the production chain. These verification proceedings might, accordingly, also generate certain compliance costs for the exporters.

Traditionally, preference utilisation is evaluated from an exporter perspective in that the free trade parties aim to use the free trade agreement to promote their exports. In any case, free trade agreements are equally important from an importer perspective in that the preferences might facilitate imports for user industries – particularly important from a global value chain approach since this might increase the competitiveness of the products – and consumers. However, import-competing sectors in the free trade parties may wish to restrict preferential imports of ‘sensitive’ products by introducing cumbersome rules of origin. The analysis in this report does not consider company structures or the nationality of exporters or importers, or the fact that intermediaries (such as customs brokers) might also be involved in the reality of preference utilisation.

Figure 2: Scheme on the interrelationship between indicators of preference utilisation in free trade agreements



Source: Elaborated by the National Board of Trade Sweden

The indicators of preference utilisation are interrelated in various ways (see Figure 2). The matrix with all available indicators of preference utilisation might be read horizontally and/or vertically.

- The 'preference utilisation rate' is calculated as the 'value of utilised preferences' as a share of the value of preference eligible trade (which is the sum of the 'value of utilised preferences' and the 'value of non-utilised preferences'), i.e. the first horizontal level in the matrix.
- The 'preference savings rate' is calculated as the 'value of preferential duty savings' as a share of the value of the potential preferential duty savings (which is the sum of the 'value of preferential duty savings' and the 'value of preferential duty costs'), i.e. the second horizontal level in the matrix.
- The 'average preference margin for utilising the preferences' is calculated as the 'value of

preferential duty savings' as a share of the 'value of utilised preferences', i.e. the first vertical level in the matrix.

- The average preference margin for not utilising the preferences is calculated as the 'value of preferential duty costs' as a share of the 'value of non-utilised preferences', i.e. the second vertical level in the matrix.

In the following, the above-mentioned indicators of preference utilisation are presented for both parties of each free trade agreement. The preference utilisation of the EU's free trade agreements may be viewed from either an exporter or importer perspective – or a combination of both (see Box 1). In this report, the 'preference utilisation rates' and the preferential trade values are mainly presented from an exporter perspective. However, the 'preference savings rates' and the preferential duty values are mainly presented from an importer perspective.

1

The use of the EU's free trade agreements

The use of the EU's free trade agreements might be analysed from either the exporter or importer perspective – or by a combination of these perspectives. The exporter and importer perspectives mirror each other since the preferential exports of one free trade party are the preferential imports of the other free trade party. The benefits from utilising the preferences might, however, differ depending on the perspective.

In this report, the exporter and importer perspectives are analysed separately with the use of different indicators even though, in reality, it might be difficult to distinguish between the two perspectives due to the structure and nationality of companies, and because they mutually reinforce each other. In this report, the exporter perspective is analysed by the indicator 'preference utilisation rate', which is the traditional measure of preference utilisation. The importer perspective is analysed by the indicator 'preference savings rate', which is a new measure introduced in this report.

The similarity of these perspectives – even though mirroring each other – might be considered redundant in an analysis, but it emphasizes the importance of focusing on both sides. In addition, this report advocates that the indicator of the 'preference savings rate' is a slightly more exact indicator of preference utilisation (if based on the appropriate data on a detailed level) since it is based on both the preference margins and the values of preference eligible trade, which together constitute the main incentives or 'drivers' for preference utilisation of free trade agreements.

It should be noted that the preferential duty values of the partner countries in this report constitute an approximation. The results presented on the 'preference savings rates' for partner countries in the report might, accordingly, differ slightly from the reality, depending on the quality of the proxy data. In this report, the 'preference utilisation rates' for the EU should be considered to be the most exact indicator for the above reason.

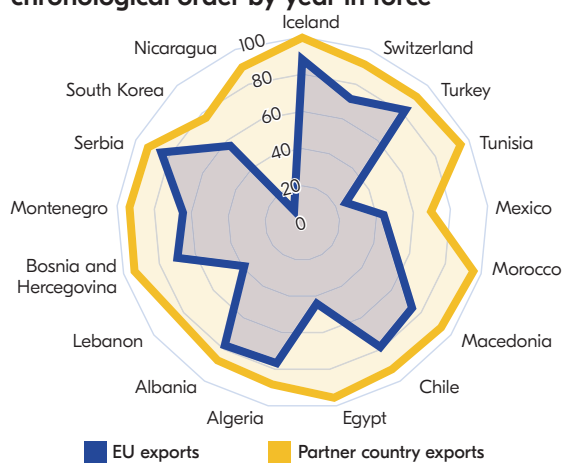
Question: What is the use of the EU's free trade agreements by EU and partner country exporters and importers?

1.1 The exporter perspective: 'Preference utilisation rates'

In order to analyse the utilisation of preferences in the EU's free trade agreements from an exporter perspective, the indicator 'preference utilisation rate' is used. The indicator preference utilisation rate is calculated as the value of trade where preferences are utilised as a share of the total value of preference eligible trade. 'Preference utilisation rates' are expressed as percentages.

The average total 'preference utilisation rate' (2009-2013) of the EU's free trade agreements is 90 percent for partner country exporters and 67 percent for EU exporters. The average 'preference utilisation rate' for both parties is 75 percent. This implies that the EU's free trade agreements are used to a generally high degree. The partner country exporters, however, use the EU's free trade agreements to a higher degree at a relative level – by 23 percentage points.

Figure 3: Preference utilisation rates in the EU's free trade agreements (average 2009-2013), in percent, chronological order by year in force



Source: Based on European Commission and Eurostat data

The explanation for the higher average total 'preference utilisation rate' of partner country exporters is that they use sixteen free trade agreements to a high degree (≥ 75 percent) – and of these as many as eleven to a very high degree (≥ 90 percent). EU exporters, however, only use seven free trade agreements to a high degree. Partner country exporters only use one free trade agreement to an intermediate degree (≥ 50 and < 75 percent), while EU exporters use five free trade agreements to an intermediate degree. Finally, EU exporters use as many as five free trade agreements to a relatively low or low degree (< 50 and < 25 percent, respectively) (see Figure 3).

The free trade agreements that are used to a high degree (≥ 75 percent) by both parties from an exporter perspective are EU-Iceland, EU-Serbia, EU-Turkey, EU-Chile, EU-the former Yugoslav Republic of Macedonia, EU-Albania and EU-Algeria. The free trade agreements that are used to an intermediate or high degree (≥ 50 percent) by either of the parties are EU-Switzerland, EU-Bosnia and Herzegovina, EU-Montenegro, EU-Morocco and EU-South Korea. In the remaining free trade agreements there is a higher discrepancy in the 'preference utilisation rates' between the parties and they are either being used to a high or an intermediate degree by one party – the partner country exporters – and a relatively low or low degree by the other party – the EU exporters, i.e. EU-Egypt, EU-Lebanon, EU-Tunisia, EU-Mexico, and EU-Nicaragua.

When the 'preference utilisation rates' for the EU's free trade agreements are presented in chronological order by year in force, there seems

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

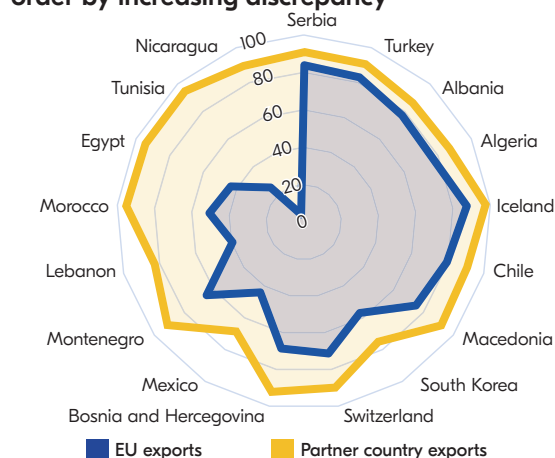
to be a lack of correlation between the time the free trade agreements entered force and the 'preference utilisation rates' of the parties. An analysis of the discrepancies in the 'preference utilisation rates' between the parties might provide a complementary picture.

The free trade agreements with the lowest discrepancies in 'preference utilisation rates' (< 10 percentage points) between the parties are EU-Serbia, EU-Turkey and EU-Albania. These free trade agreements are accordingly used to a similar degree – at a relative level – between the two parties. The free trade agreements with the highest discrepancies in utilisation rates (≥ 20 percentage points) between the parties are EU-Nicaragua, EU-Tunisia, EU-Egypt, EU-Morocco, EU-Lebanon, EU-Montenegro, EU-Mexico and EU-Bosnia and Herzegovina. Three of these free trade agreements, i.e. EU-Bosnia and Herzegovina, EU-Montenegro and EU-Morocco, are used to an intermediate degree by EU exporters. The remaining free trade agreements are, however, used to a relatively low or low degree by EU exporters (see Figure 4). The discrepancy between the parties will be analysed in detail in Chapter 4.1.1.

1.2 The importer perspective: 'Preference savings rates'

In order to analyse the utilisation of preferences in the EU's free trade agreements from an importer perspective, the indicator 'preference savings rate' is used. The indicator 'preference

Figure 4: Preference utilisation rates in the EU's free trade agreements (average 2009-2013), in percent, order by increasing discrepancy



Source: Based on European Commission and Eurostat data

savings rate' is calculated as the value of preferential duty savings where preferences are utilised as a share of the total value of potential preferential duty savings in preference eligible trade. The 'preference savings rates' are expressed as percentages.

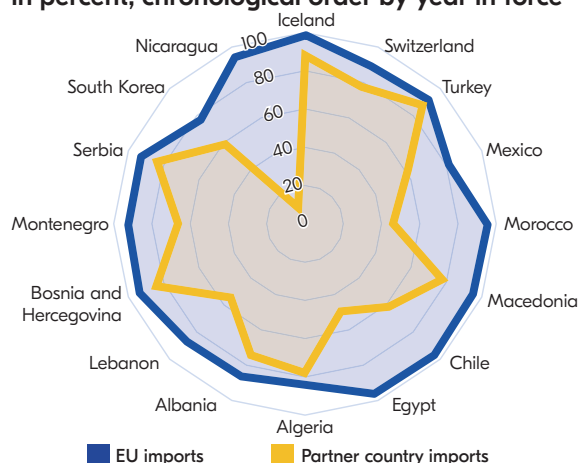
The average total 'preference savings rate' (2009-2013) of the EU's free trade agreements is 91 percent for EU importers and 68 percent for partner country importers. The average 'preference savings rate' for both parties is 77 percent. This implies that the EU's free trade agreements are used to a generally high degree. EU importers use the EU's free trade agreements to a higher degree at a relative level – by 23 percentage points. [Tunisia is not included in the analysis due to the lack of data on preferential tariffs, which hinders

the calculation of the preferential duty savings.]

The explanation for the higher average total 'preference savings rate' by EU importers is that they use all seventeen free trade agreements to a high degree (≥ 75 percent) – and of these as many as ten to a very high degree (≥ 90 percent). Partner country importers on the other hand only use eight free trade agreements to a high degree (≥ 75 percent), five to an intermediate degree (≥ 50 percent) and three to a relatively low or low degree (< 50 percent and < 25 percent, respectively) (see Figure 5).

The free trade agreements that are used to a high degree (≥ 75 percent) by both parties from an importer perspective are EU-Iceland, EU-Turkey, EU-Bosnia and Herzegovina, EU-Serbia, EU-the former Yugoslav Republic of Macedonia,

Figure 5: Preference savings rates in the EU's free trade agreements (average 2009-2013), in percent, chronological order by year in force



Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

| Free Trade Agreement | EU imports (%) | Partner country imports (%) | Difference (p.p.) |
|------------------------|----------------|-----------------------------|-------------------|
| Iceland | 98 | 88 | -10 |
| Switzerland | 89 | 78 | -12 |
| Turkey | 91 | 87 | -4 |
| Mexico | 82 | 57 | -24 |
| Morocco | 95 | 46 | -49 |
| Macedonia | 95 | 77 | -17 |
| Chile | 96 | 62 | -34 |
| Egypt | 96 | 49 | -47 |
| Algeria | 84 | 78 | -5 |
| Albania | 86 | 75 | -11 |
| Lebanon | 87 | 54 | -32 |
| Bosnia and Herzegovina | 93 | 84 | -9 |
| Montenegro | 92 | 66 | -26 |
| Serbia | 92 | 84 | -9 |
| South Korea | 77 | 58 | -18 |
| Nicaragua | 95 | 9 | -86 |
| TOTAL | 91 | 68 | -23 |

Note: EU-Tunisia is not included in the analysis due to the lack of data on preferential tariffs.

EU-Switzerland, EU-Algeria and EU-Albania. The free trade agreements that are used to an intermediate degree (≥ 50 percent) by both parties are EU-Montenegro, EU-Chile, EU-Lebanon, EU-Mexico and EU-South Korea. In the remaining three free trade agreements there is a higher discrepancy in the ‘preference savings rate’ between the parties, and they are either being used to a high or intermediate degree by one party – the EU – and a relatively low degree by the other party – the partner countries, i.e. EU-Egypt, EU-Morocco and EU-Nicaragua.

When the ‘preference savings rates’ for the EU’s free trade agreements are presented in chronological order by year in force, there seems to be a lack of correlation between the time the free trade agreements entered force and the ‘preference savings rates’ of the parties. An analysis of the discrepancies in the ‘preference savings rates’ between the parties might provide a complementary picture.

The free trade agreements with the lowest discrepancies in ‘preference savings rates’ (< 5 percentage points) between the parties are EU-Turkey and EU-Algeria. These free trade agreements are accordingly used to a similar degree – at a relative level – between the two parties. The free trade agreements with the highest discrepancies in ‘preference savings rates’ (≥ 20 percentage points) between the parties are EU-Mexico, EU-Montenegro, EU-Lebanon, EU-Chile, EU-Egypt, EU-Morocco and EU-Nicaragua. Four of

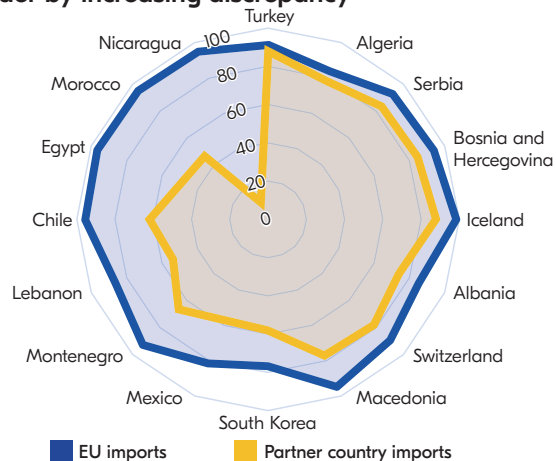
these free trade agreements, i.e. EU-Mexico, EU-Montenegro, EU-Lebanon and EU-Chile are used to an intermediate degree by the partner country importers. The remaining free trade agreements are, however, used to a relatively low or low degree by the partner country importers (see Figure 6). The discrepancy between the parties will be analysed in detail in Chapter 4.1.2.

1.3 The use of ‘preference utilisation rates’ vs. ‘preference savings rates’

A comparison between ‘preference utilisation rates’ and ‘preference savings rates’ indicates that the latter are generally slightly higher. The ‘preference utilisation rate’ for partner country exporters is 90 percent, and the ‘preference savings rate’ for EU importers is 91 percent. The ‘preference utilisation rate’ for EU exporters is 67 percent and the ‘preference savings rate’ for partner country importers is 68 percent. The average ‘preference utilisation rate’ for both parties is 75 percent and the average ‘preference savings rate’ for both parties is 77 percent (see Table 1).

The ‘preference savings rates’ are based on both the preference margins and the values of preference eligible trade. The somewhat higher levels of ‘preference savings rates’, when compared to ‘preference utilisation rates’, might, accordingly, indicate that importers in general –

Figure 6: Preference savings rates in the EU’s free trade agreements (average 2009-2013), in percent, order by increasing discrepancy



Source: Based on Eurostat, European Commission, Comtrade and TRAINS data

| Free Trade Agreement | EU imports (%) | Partner country imports (%) | Difference (p.p.) |
|------------------------|----------------|-----------------------------|-------------------|
| Turkey | 91 | 87 | -4 |
| Algeria | 84 | 78 | -5 |
| Serbia | 92 | 84 | -9 |
| Bosnia and Herzegovina | 93 | 84 | -9 |
| Iceland | 98 | 88 | -10 |
| Albania | 86 | 75 | -11 |
| Switzerland | 89 | 78 | -12 |
| Macedonia | 95 | 77 | -17 |
| South Korea | 77 | 58 | -18 |
| Mexico | 82 | 57 | -24 |
| Montenegro | 92 | 66 | -26 |
| Lebanon | 87 | 54 | -32 |
| Chile | 96 | 62 | -34 |
| Egypt | 96 | 49 | -47 |
| Morocco | 95 | 46 | -49 |
| Nicaragua | 95 | 9 | -86 |
| TOTAL | 91 | 68 | -23 |

Note: EU-Tunisia is not included in the analysis due to the lack of data on preferential tariffs.



and EU importers in particular – are utilising the available preferences and the available preference margins to a high degree. The findings with regard to the ‘preference savings rates’ indicate the importance of also focusing on the importer perspective in the analysis of the use of free trade agreements in order to have a complete picture of preference utilisation.

The main incentives or ‘drivers’ for preference utilisation – the preference margins and the values of preference eligible trade – are higher for EU exporters and, accordingly, partner country importers. In other words, the values of the EU’s preference eligible exports, which is higher than the values of the preference eligible exports of partner countries (see Chapter 2), and the values of the preferential duties of partner country importers, which is higher than the values of the preferential duties of EU importers (see Chapter 3), should according to theory lead to a high preference utilisation.

In reality, however, it is somewhat unexpected to find that the preference utilisation of the EU exporters and, accordingly, partner country

importers is substantially lower with regard to ‘preference utilisation rates’ and/or ‘preference savings rates’ at a total level. The reasons for this might be found in the particular characteristics of the trade reality of the EU and partner countries, for example in the implementation of free trade agreements in reality, and border-related aspects (see Chapter 4).

Table 1: ‘Preference utilisation rates’ vs. ‘preference savings rates’ in percent

| | EU | Partner countries | Total |
|--|----|-------------------|-------|
| Preference utilisation rate (“exporter perspective”) | 67 | 90 | 75 |
| Preference savings rate (“importer perspective”) | 91 | 68 | 77 |

Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

2

The exporter perspective: The values of preferential trade in the EU's free trade agreements

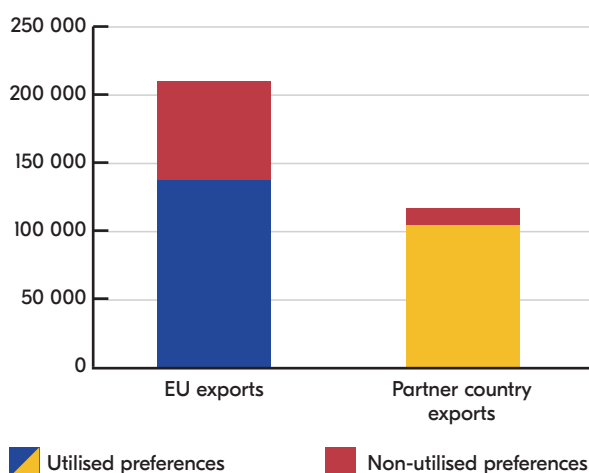
The indicator 'preference utilisation rate' is calculated based on the values of utilised preferences and non-utilised preferences. The 'preference utilisation rate' is a relative measure but in an analysis of preference utilisation it is important to complement this measure with the absolute values of preference eligible exports where the preferences are utilised, and preference eligible exports where the preferences are not utilised in order to understand the economic importance of the preferences for the economy – as well as the economic potential that is not used – from an exporter perspective for the EU and partner countries (see Figure 7).

Question: What are the exporter trade values of using and not using the EU's free trade agreements?

2.1 The value of utilised preferences

In order to analyse the value of utilised preferences in the EU's free trade agreements from an exporter perspective, the indicator 'value of utilised preferences' or preferential exports is used. The value of utilised preferences provides a picture of the importance of the preferential exports in the free trade agreements for the economy at an absolute level.

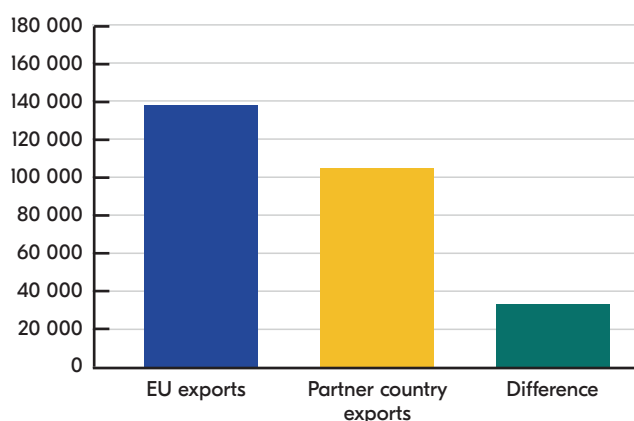
Figure 7: The values of utilised and non-utilised preferences in the EU's free trade agreements, EUR millions



| | EU exports | Partner country exports |
|--------------------------|------------|-------------------------|
| Utilised preferences | 138 119 | 104 903 |
| Non-utilised preferences | 72 387 | 12 171 |
| TOTAL | 210 506 | 117 074 |

Source: Based on European Commission, Comtrade and Eurostat data

Figure 8: Value of utilised preferences in the EU's free trade agreements (average 2009-2013), EUR millions



Source: Based on European Commission, Comtrade and Eurostat data

| Free Trade Agreement (EUR millions) | EU exports | Partner country exports | Difference |
|-------------------------------------|----------------|-------------------------|---------------|
| Iceland | 338 | 2 096 | -1 758 |
| Switzerland | 48 082 | 34 280 | 13 802 |
| Turkey | 34 182 | 34 599 | -417 |
| Tunisia | 1 889 | 5 700 | -3 810 |
| Mexico | 5 456 | 3 533 | 1 923 |
| Morocco | 6 796 | 6 258 | 537 |
| Macedonia | 1 287 | 860 | 427 |
| Chile | 3 717 | 2 403 | 1 314 |
| Egypt | 4 797 | 3 164 | 1 633 |
| Algeria | 5 378 | 1 751 | 3 627 |
| Albania | 840 | 338 | 502 |
| Lebanon | 1 781 | 126 | 1 655 |
| Bosnia and Herzegovina | 2 051 | 1 254 | 798 |
| Montenegro | 256 | 134 | 121 |
| Serbia | 4 071 | 2 412 | 1 660 |
| South Korea | 17 195 | 5 908 | 11 287 |
| Nicaragua | 2 | 86 | -84 |
| TOTAL | 138 119 | 104 903 | 33 216 |

EU exporters account for the highest utilisation of preferences in the EU's free trade agreements in absolute terms. The EU's preferential export surplus is 33 billion euro. In other words, the relatively higher preference utilisation in favour of partner country exporters might be seen in relation to the absolutely higher preference utilisation in favour of EU exporters. This is, however, expected given the size of the EU economy in relation to partner countries.

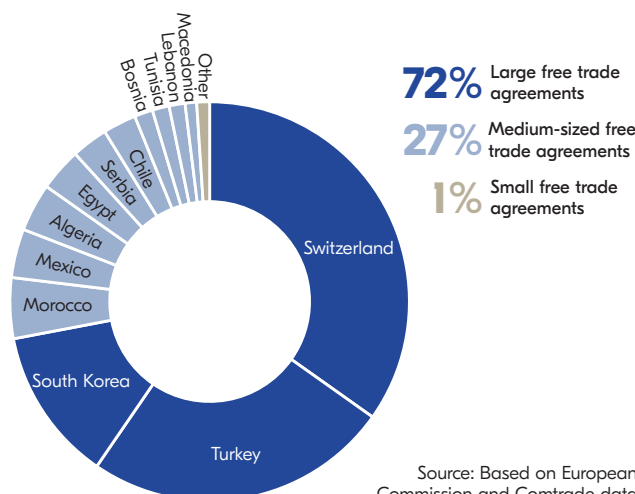
The total value of utilised preferences by the EU is 138 billion euro and the total value of utilised preferences by partner countries is 105 billion euro (see Figure 8). In other words, the EU's preferential exports account for 57 percent of the total value of utilised preferences in the EU's free trade agreements and the value of utilised preferences of partner countries account for 43 percent

of the total value of value of utilised preferences in the EU's free trade agreements.

If the three largest free trade agreements, i.e. EU-Switzerland, EU-Turkey and EU-South Korea, are temporarily excluded from the analysis, the value of utilised preferences by the EU would account for 56 percent of the total value of utilised preferences in the EU's free trade agreements. The value of utilised preferences by the partner countries would, likewise, account for 44 percent of the total value of utilised preferences in the EU's free trade agreements. The findings at a total level remain, accordingly, relatively unchanged.

In order to understand the economic importance of the individual free trade agreements, the composition of the total value of utilised preferences is analysed below.

Figure 9: Value of utilised preferences by free trade agreement (average 2009-2013), EU exports



Source: Based on European Commission and Comtrade data

| Free Trade Agreement (EUR millions) | EU exports | Share of total (%) | Cumulative share (%) |
|-------------------------------------|----------------|--------------------|----------------------|
| Switzerland | 48 082 | 35 | 35 |
| Turkey | 34 182 | 25 | 60 |
| South Korea | 17 195 | 12 | 72 |
| Morocco | 6 796 | 5 | 77 |
| Mexico | 5 456 | 4 | 81 |
| Algeria | 5 378 | 4 | 85 |
| Egypt | 4 797 | 3 | 88 |
| Serbia | 4 071 | 3 | 91 |
| Chile | 3 717 | 3 | 94 |
| Bosnia and Herzegovina | 2 051 | 1 | 95 |
| Tunisia | 1 889 | 1 | 97 |
| Lebanon | 1 781 | 1 | 98 |
| Macedonia | 1 287 | 1 | 99 |
| Albania | 840 | 1 | 100 |
| Iceland | 338 | 0 | 100 |
| Montenegro | 256 | 0 | 100 |
| Nicaragua | 2 | 0 | 100 |
| TOTAL | 138 119 | 100 | 100 |

The EU's free trade agreements with the largest values of utilised preferences (≥ 10 billion euro) are EU-Switzerland, EU-Turkey and EU-South Korea, accounting for 72 percent of the total value of utilised preferences. The ten medium-sized free trade agreements (≥ 1 billion euro) account for 27 percent of the total value of utilised preferences. The four smallest free trade agreements (< 1 billion euro) only account for 1 percent of the total value of utilised preferences (see Figure 9).

The partner country free trade agreements with the largest values of utilised preferences (≥ 10 billion euro) are EU-Switzerland and EU-Turkey, accounting for 66 percent of the total value of utilised preferences. The ten medium-sized free trade agreements (≥ 1 billion euro) account for 33 percent of the total value of utilised preferences. The five smallest free trade agreements (< 1 billion euro) only account for 1 percent of the total value of utilised preferences (see Figure 10).

2.2 The value of non-utilised preferences

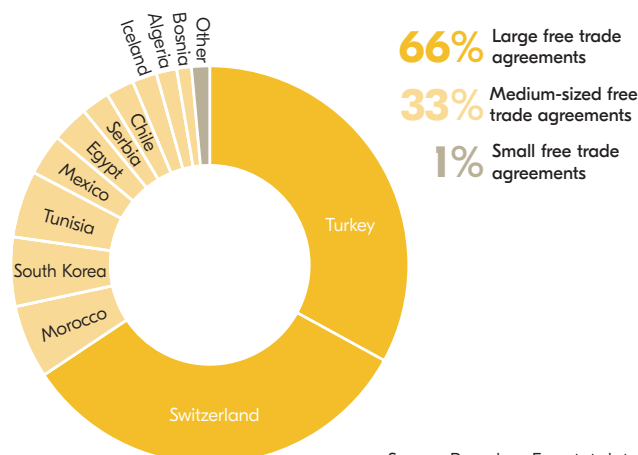
In order to analyse the value of the non-utilisation of preferences in the EU's free trade agreements from an exporter perspective, the indicator 'value of non-utilised preferences', or preference eligible exports where preferences are not utilised, is used. The indicator value of trade of non-utilised preferences shows the value of

preference eligible exports where preferences are not utilised. The value of non-utilised preferences provides a picture of the lost opportunity or future potential of the utilisation of preferences in free trade agreements for the economy at an absolute level.

The EU has a net 'deficit' of 60 billion euro in relation to partner countries when it comes to preference eligible exports where the preferences are not utilised. EU exporters are, accordingly, under-utilising the EU's free trade agreements to a higher value than partner countries. This finding might be considered unexpected since the value of preference eligible trade is one of the most important incentives or 'drivers' for preference utilisation. From an EU exporter perspective, this might be seen as a large lost opportunity or as a large future potential for higher utilisation of the available preferences in EU exports.

The total value of non-utilised preferences by the EU is 72 billion euro and the total value of non-utilised preferences by partner countries is 12 billion euro (see Figure 11). In other words, the EU's value of non-utilised preferences accounts for as much as 86 percent of the total value of non-utilised preferences in the EU's free trade agreements, whereas the share of partner countries is as low as 14 percent. This is a significantly larger difference compared to the shares of the value of utilised preferences, which are 57 percent for EU exporters and 43 percent for partner country exporters, respectively. The trade struc-

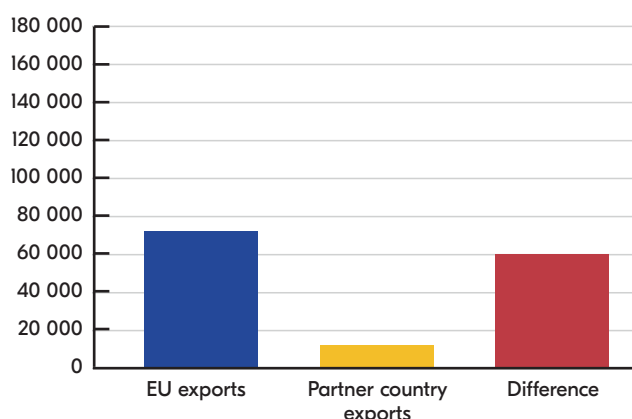
Figure 10: Value of utilised preferences by free trade agreement (average 2009-2013), partner country exports



Source: Based on Eurostat data

| Free Trade Agreement (EUR millions) | Partner country exports | Share of total (%) | Cumulative share (%) |
|-------------------------------------|-------------------------|--------------------|----------------------|
| Turkey | 34 599 | 33 | 33 |
| Switzerland | 34 280 | 33 | 66 |
| Morocco | 6 258 | 6 | 72 |
| South Korea | 5 908 | 6 | 77 |
| Tunisia | 5 700 | 5 | 83 |
| Mexico | 3 533 | 3 | 86 |
| Egypt | 3 164 | 3 | 89 |
| Serbia | 2 412 | 2 | 91 |
| Chile | 2 403 | 2 | 94 |
| Iceland | 2 096 | 2 | 96 |
| Algeria | 1 751 | 2 | 97 |
| Bosnia and Herzegovina | 1 254 | 1 | 99 |
| Macedonia | 860 | 1 | 99 |
| Albania | 338 | 0 | 100 |
| Montenegro | 134 | 0 | 100 |
| Lebanon | 126 | 0 | 100 |
| Nicaragua | 86 | 0 | 100 |
| TOTAL | 104 903 | 100 | 100 |

Figure 11: Value of non-utilised preferences in the EU's free trade agreements (average 2009-2013), EUR millions



Source: Based on European Commission, Comtrade and Eurostat data

tures of utilised and non-utilised preferences are, accordingly, very different between the free trade parties.

If the three largest free trade agreements, i.e. EU-Switzerland, EU-Turkey and EU-South Korea, are temporarily excluded from the analysis, the EU's value of non-utilised preferences would account for 90 percent of the total value of non-utilised preferences in the EU's free trade agreements. The value of non-utilised preferences of partner countries would, likewise, account for 10 percent of the total value of non-utilised preferences in the EU's free trade agreements. The findings at a total level are, accordingly, slightly more pronounced. This provides an indication of the economic importance of the under-utilisa-

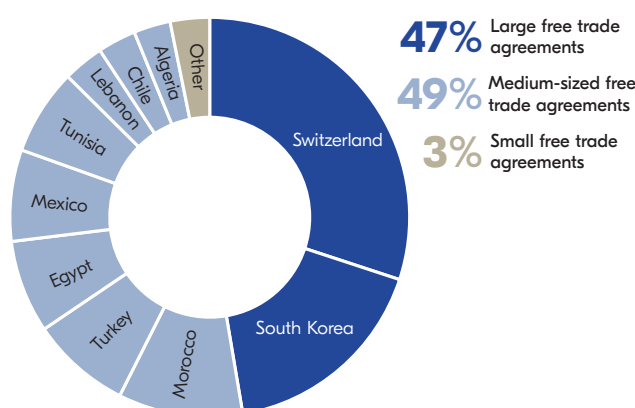
| Free Trade Agreement (EUR millions) | EU exports | Partner country exports | Difference |
|-------------------------------------|---------------|-------------------------|---------------|
| Iceland | 47 | 36 | 10 |
| Switzerland | 21 754 | 3 476 | 18 279 |
| Turkey | 5 865 | 3 374 | 2 491 |
| Tunisia | 5 042 | 318 | 4 725 |
| Mexico | 5 359 | 1 599 | 3 760 |
| Morocco | 7 306 | 277 | 7 029 |
| Macedonia | 405 | 70 | 335 |
| Chile | 2 245 | 239 | 2 007 |
| Egypt | 5 442 | 186 | 5 256 |
| Algeria | 2 152 | 256 | 1 895 |
| Albania | 250 | 54 | 195 |
| Lebanon | 2 397 | 25 | 2 371 |
| Bosnia and Hercegovina | 462 | 99 | 363 |
| Montenegro | 195 | 12 | 184 |
| Serbia | 895 | 236 | 658 |
| South Korea | 12 518 | 1 904 | 10 614 |
| Nicaragua | 53 | 11 | 43 |
| TOTAL | 72 387 | 12 171 | 60 215 |

tion of a number of the medium-sized free trade agreements.

In order to understand the economic importance of the individual free trade agreements, the composition of the total value of non-utilised preferences is analysed below.

The EU's free trade agreements with the largest values of non-utilised preferences (≥ 10 billion euro) are EU-Switzerland and EU-South Korea, accounting for 47 percent of the total value of non-utilised preferences. The eight medium-sized free trade agreements (≥ 1 billion euro) account for 49 percent of the total value of non-utilised preferences. The seven smallest free trade agreements (< 1 billion euro) only account for 3 percent of the total value of non-utilised preferences (see Figure 12).

Figure 12: Value of non-utilised preferences by free trade agreement (average 2009-2013), EU exports

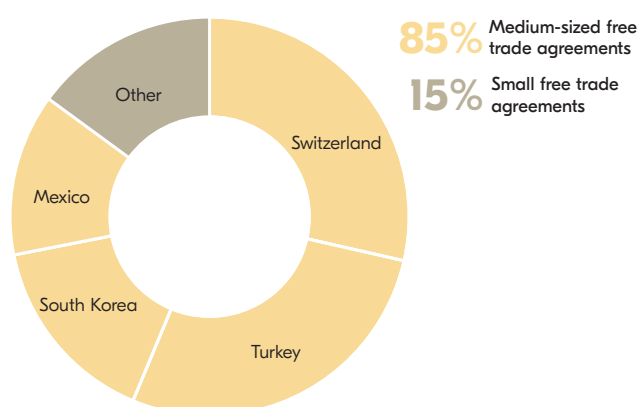


Source: Based on European Commission and Comtrade data

| Free Trade Agreement (EUR millions) | EU exports | Share of total (%) | Cumulative share (%) |
|-------------------------------------|---------------|--------------------|----------------------|
| Switzerland | 21 754 | 30 | 30 |
| South Korea | 12 518 | 17 | 47 |
| Morocco | 7 306 | 10 | 57 |
| Turkey | 5 865 | 8 | 66 |
| Egypt | 5 442 | 8 | 73 |
| Mexico | 5 359 | 7 | 80 |
| Tunisia | 5 042 | 7 | 87 |
| Lebanon | 2 397 | 3 | 91 |
| Chile | 2 245 | 3 | 94 |
| Algeria | 2 152 | 3 | 97 |
| Serbia | 895 | 1 | 98 |
| Bosnia and Hercegovina | 462 | 1 | 99 |
| Macedonia | 405 | 1 | 99 |
| Albania | 250 | 0 | 100 |
| Montenegro | 195 | 0 | 100 |
| Nicaragua | 53 | 0 | 100 |
| Iceland | 47 | 0 | 100 |
| TOTAL | 72 387 | 100 | 100 |



Figure 13: Value of non-utilised preferences by free trade agreement (average 2009-2013), partner country exports



Source: Based on Eurostat data

| Free Trade Agreement (EUR millions) | Partner country exports | Share of total (%) | Cumulative share (%) |
|-------------------------------------|-------------------------|--------------------|----------------------|
| Switzerland | 3 476 | 29 | 29 |
| Turkey | 3 374 | 28 | 56 |
| South Korea | 1 904 | 16 | 72 |
| Mexico | 1 599 | 13 | 85 |
| Tunisia | 318 | 3 | 88 |
| Morocco | 277 | 2 | 90 |
| Algeria | 256 | 2 | 92 |
| Chile | 239 | 2 | 94 |
| Serbia | 236 | 2 | 96 |
| Egypt | 186 | 2 | 97 |
| Bosnia and Hercegovina | 99 | 1 | 98 |
| Macedonia | 70 | 1 | 99 |
| Albania | 54 | 0 | 99 |
| Iceland | 36 | 0 | 100 |
| Lebanon | 25 | 0 | 100 |
| Montenegro | 12 | 0 | 100 |
| Nicaragua | 11 | 0 | 100 |
| TOTAL | 12 171 | 100 | 100 |

Partner country exporters are not utilising available preferences for intermediate trade values (≥ 1 billion euro) in the free trade agreements with EU-Switzerland, EU-South Korea, EU-Turkey and EU-Mexico accounting for 85 per-

cent of the total value of non-utilised preferences. The remaining 13 free trade agreements with small trade values (< 1 billion euro) account for 15 percent of the total value of non-utilised preferences (see Figure 13).

3

The importer perspective: The values of preferential duties in the EU's free trade agreements

The indicator 'preference savings rate' is calculated based on the values of preferential duty savings and preferential duty costs. The 'preference savings rate' is a relative measure but in an analysis of preference utilisation it is important to complement this measure with the absolute values of preferential duty savings and preferential duty costs in order to understand the economic importance of the preferences for the economy – as well as the economic potential that is not used – from an importer perspective for the EU and partner countries (see Figure 14).

In addition, the values of the preferential duties is also an issue of private sector savings vs. public sector income within each free trade party in that the preferential duty savings of importers are potentially lost tariff revenues for the customs authorities – provided that the imports would have

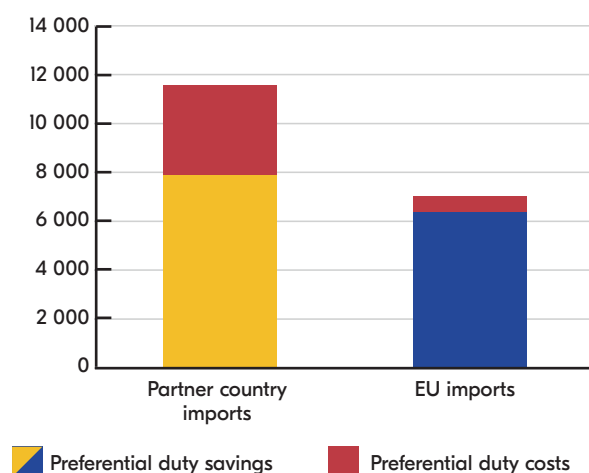
taken place in the absence of preferential duty savings – and the preferential duty costs of the importers is a tariff revenue for the customs authorities – provided that the imports will continue to take place with maintained preferential duty costs).

Question: What are the importer duty values of using and not using the EU's free trade agreements?

3.1 The value of preferential duty savings

In order to analyse the value of the utilisation of preferences in the EU's free trade agreements from an importer perspective, the indicator 'preferential duty savings' is used. The indicator preferential duty savings of utilised preferences is a

Figure 14: The values of preferential duty savings and preferential duty costs in the EU's free trade agreements, EUR millions



| | Partner country imports | EU imports |
|---------------------------|-------------------------|--------------|
| Preferential duty savings | 7 883 | 6 396 |
| Preferential duty costs | 3 675 | 631 |
| TOTAL | 11 558 | 7 027 |

Source: Based on European Commission, Comtrade, Eurostat and TRAINS data



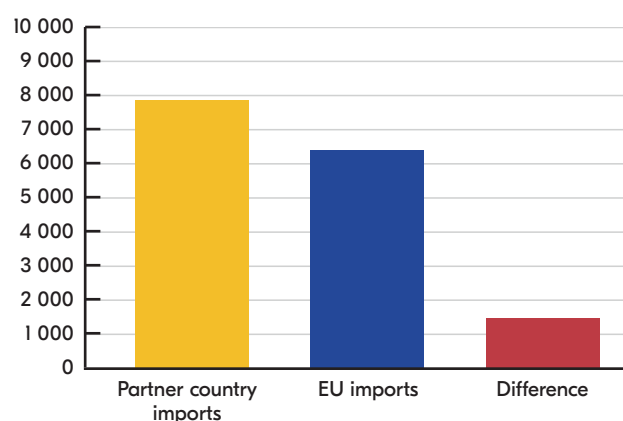
product of the value of preferential imports and the average preference margins. The value of preferential duty savings provides a picture of the importance of the utilisation of preferences in free trade agreements for the economy at an absolute level. However, the compliance costs of utilising the preferences are not considered in the indicator. In addition, the indicator does not provide information regarding to whom the preferential duty savings accrue in reality.

The traditional objective of free trade agreements is the utilisation of available preferences. An analysis of the preferential duty savings in the EU's free trade agreements indicates that the net difference in preferential duty savings is 1.5 billion euro to the benefit of partner country importers. In this context, it is relevant to note that partner countries, in general, have higher

applied 'most favoured nation' tariffs than the EU, and that the preference margins from utilising the preferences, accordingly, are slightly higher. This, in combination with the higher value of the preferential imports of the partner countries, explains partly the higher preferential duty savings for partner countries. The opposite is the case for the EU's preferential duty savings.

The preferential imports of partner countries generate 7.9 billion euro in preferential duty savings to the benefit of partner country importers, and the EU's preferential imports generate 6.4 billion euro in preferential duty savings to the benefit EU importers (see Figure 15). In other words, partner countries benefit from 55 percent of the total value of preferential duty savings and EU importers benefit from 45 percent of the total value of preferential duty savings.

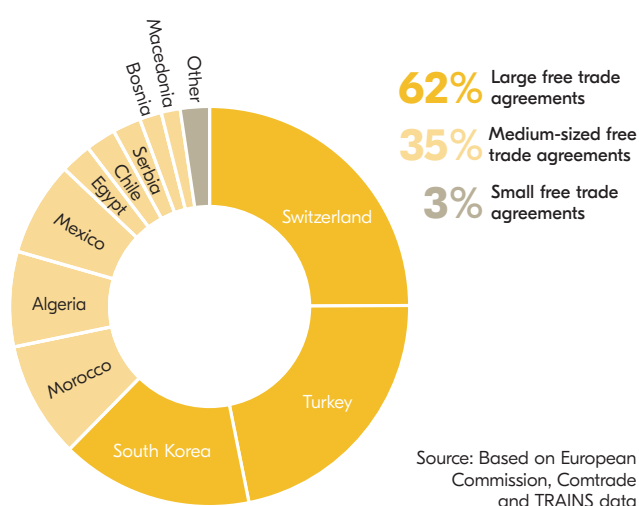
Figure 15: Value of preferential duty savings in the EU's free trade agreements (average 2009-2013), EUR millions



Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

| Free Trade Agreement (EUR millions) | Partner country imports | EU imports | Difference |
|--|-------------------------------|---------------|--------------|
| Iceland | 27 | 150 | -122 |
| Switzerland | 1 965 | 1 274 | 691 |
| Turkey | 1 728 | 2 684 | -956 |
| Tunisia | [...] | 397 | [...] |
| Mexico | 600 | 264 | 337 |
| Morocco | 741 | 534 | 207 |
| Macedonia | 121 | 59 | 62 |
| Chile | 193 | 321 | -128 |
| Egypt | 199 | 205 | -6 |
| Algeria | 607 | 32 | 575 |
| Albania | 64 | 26 | 37 |
| Lebanon | 78 | 7 | 71 |
| Bosnia and Herzegovina | 141 | 61 | 80 |
| Montenegro | 16 | 8 | 9 |
| Serbia | 180 | 155 | 25 |
| South Korea | 1 223 | 216 | 1 007 |
| Nicaragua | 0 | 5 | -5 |
| TOTAL | 7 883 | 6 396 | 1 488 |

Figure 16: Value of preferential duty savings by free trade agreement (average 2009-2013), partner country imports



| Free Trade Agreement (EUR millions) | Partner country imports | Share of total (%) | Cumulative share (%) |
|-------------------------------------|-------------------------|--------------------|----------------------|
| Switzerland | 1 965 | 25 | 25 |
| Turkey | 1 728 | 22 | 47 |
| South Korea | 1 223 | 16 | 62 |
| Morocco | 741 | 9 | 72 |
| Algeria | 607 | 8 | 79 |
| Mexico | 600 | 8 | 87 |
| Egypt | 199 | 3 | 90 |
| Chile | 193 | 2 | 92 |
| Serbia | 180 | 2 | 94 |
| Bosnia and Hercegovina | 141 | 2 | 96 |
| Macedonia | 121 | 2 | 98 |
| Lebanon | 78 | 1 | 99 |
| Albania | 64 | 1 | 99 |
| Iceland | 27 | 0 | 100 |
| Montenegro | 16 | 0 | 100 |
| Nicaragua | 0 | 0 | 100 |
| Tunisia | [...] | [...] | [...] |
| TOTAL | 7 883 | 100 | 100 |

If the largest free trade agreements, i.e. EU-Switzerland, EU-Turkey and EU-South Korea, are temporarily excluded from the analysis, the preferential duty savings of partner countries would account for 57 percent of the total value of preferential duty savings in the EU's free trade agreements. The EU's preferential duty savings would, likewise, account for 43 percent of the total value of preferential duty savings in the EU's free trade agreements. The findings at a total level remain, accordingly, relatively unchanged.

In order to understand the economic importance of the individual free trade agreements, the composition of the total value of preferential duty savings is analysed below.

The preferential imports from partner countries within the free trade agreements for EU-Switzerland, EU-Turkey and EU-South Korea generate the highest preferential duty savings (≥ 1 billion euro), accounting for 62 percent of the total value of preferential duty savings in the EU's free trade agreements. The eight medium-sized free trade agreements (≥ 100 million euro) account for 35 percent of the total value of preferential duty savings. The five smallest free trade agreements (< 100 million euro) only account for 2 percent of the total value of preferential duty savings (see Figure 16).

The free trade agreements that generate the highest preferential duty savings (≥ 1 billion euro) in the EU from preferential imports from the partner countries are EU-Turkey and EU-Switzerland, accounting for 62 percent of the total value of preferential duty savings from the preferential imports in the EU's free trade agreements. The

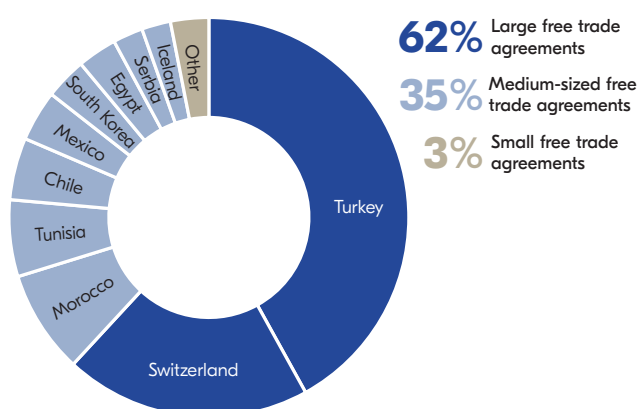
eight medium-sized free trade agreements (≥ 100 million euro) account for 35 percent of the total value of preferential duty savings. The seven smallest free trade agreements (< 100 million euro) only account for 3 percent of the total value of preferential duty savings (see Figure 17).

3.2 The value of preferential duty costs

In order to analyse the value of the utilisation of preferences in the EU's free trade agreements from an importer perspective, the indicator 'preferential duty costs' is used. The indicator preferential duty costs of non-utilised preferences is a product of the value of preference eligible imports where preferences are not utilised and the average preference margin. The value of preferential duty costs provides a picture of the lost opportunity or future potential of the utilisation of preferences in free trade agreements for the economy at an absolute level. However, the indicator does not provide information regarding to whom the preferential duty costs accrue in reality.

The traditional objective of free trade agreements is the utilisation of available preferences. An analysis of the preferential duty costs in the EU's free trade agreements indicates that partner country importers face preferential duty costs of about 3 billion euros more than EU importers. In this context, it is relevant to note that partner countries, in general, have higher applied 'most favoured nation' tariffs than the EU, and that the preference margin from utilising the preferences,

Figure 17: Value of preferential duty savings by free trade agreement (average 2009-2013), EU imports



Source: Based on Eurostat and TRAINS data

| Free Trade Agreement (EUR millions) | EU imports | Share of total (%) | Cumulative share (%) |
|-------------------------------------|--------------|--------------------|----------------------|
| Turkey | 2 684 | 42 | 42 |
| Switzerland | 1 274 | 20 | 62 |
| Morocco | 534 | 8 | 70 |
| Tunisia | 397 | 6 | 76 |
| Chile | 321 | 5 | 81 |
| Mexico | 264 | 4 | 86 |
| South Korea | 216 | 3 | 89 |
| Egypt | 205 | 3 | 92 |
| Serbia | 155 | 2 | 95 |
| Iceland | 150 | 2 | 97 |
| Bosnia and Hercegovina | 61 | 1 | 98 |
| Macedonia | 59 | 1 | 99 |
| Algeria | 32 | 1 | 99 |
| Albania | 26 | 0 | 100 |
| Montenegro | 8 | 0 | 100 |
| Lebanon | 7 | 0 | 100 |
| Nicaragua | 5 | 0 | 100 |
| TOTAL | 6 396 | 100 | 100 |

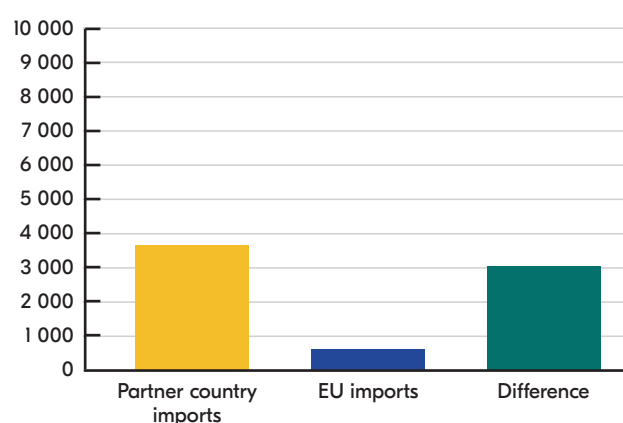
accordingly, is slightly higher. This, in combination with the higher value of the preferential imports of partner countries where preferences are not utilised, explains partly the higher preferential duty costs for the partner countries. The opposite is the case for the EU's preferential duty costs. This finding might be considered unexpected since the preference margins and the values of preference eligible trade are the most important incentives or 'drivers' for preference utilisation.

The total value of preferential duty costs facing partner country importers by not utilising the available preferences is about 3.7 billion euro and the total value of preferential duty costs facing EU importers by not utilising the available preferences is 0.6 billion euro (see Figure 18). In other words, partner country importers face as much as

85 percent of the total value of preferential duty costs and EU importers face as little as 15 percent of the total value of preferential duty costs. This is a significantly larger difference as compared to the shares of the values of preferential duty savings, which are 55 percent for partner country importers and 45 percent for EU importers, respectively. The trade structures of utilised and non-utilised preferences are, accordingly, very different between the free trade parties.

If the largest free trade agreements, i.e. EU-Switzerland, EU-Turkey and EU-South Korea, are temporarily excluded from the analysis, the preferential duty costs of partner countries would account for 93 percent of the total value of preferential duty costs in the EU's free trade agreements. The EU's preferential duty costs would,

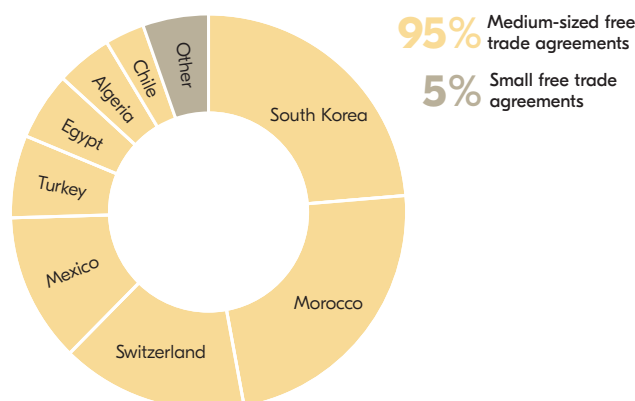
Figure 18: Value of preferential duty costs in the EU's free trade agreements (average 2009-2013), EUR millions



Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

| Free Trade Agreement (EUR millions) | Partner country imports | EU imports | Difference |
|-------------------------------------|-------------------------|------------|--------------|
| Iceland | 4 | 2 | 1 |
| Switzerland | 561 | 151 | 410 |
| Turkey | 248 | 256 | -9 |
| Tunisia | [...] | 17 | [...] |
| Mexico | 447 | 59 | 388 |
| Morocco | 862 | 26 | 835 |
| Macedonia | 35 | 3 | 32 |
| Chile | 119 | 14 | 105 |
| Egypt | 203 | 8 | 195 |
| Algeria | 169 | 6 | 162 |
| Albania | 22 | 4 | 17 |
| Lebanon | 66 | 1 | 65 |
| Bosnia and Hercegovina | 26 | 4 | 22 |
| Montenegro | 8 | 1 | 8 |
| Serbia | 35 | 13 | 22 |
| South Korea | 870 | 65 | 805 |
| Nicaragua | 1 | 0 | 1 |
| TOTAL | 3 675 | 631 | 3 043 |

Figure 19: Value of preferential duty costs by free trade agreement (average 2009-2013), partner country imports



Source: Based on European Commission, Comtrade and TRAINS data

| Free Trade Agreement (EUR millions) | Partner country imports | Share of total (%) | Cumulative share (%) |
|-------------------------------------|-------------------------|--------------------|----------------------|
| South Korea | 870 | 24 | 24 |
| Morocco | 862 | 23 | 47 |
| Switzerland | 561 | 15 | 62 |
| Mexico | 447 | 12 | 75 |
| Turkey | 248 | 7 | 81 |
| Egypt | 203 | 6 | 87 |
| Algeria | 169 | 5 | 91 |
| Chile | 119 | 3 | 95 |
| Lebanon | 66 | 2 | 96 |
| Macedonia | 35 | 1 | 97 |
| Serbia | 35 | 1 | 98 |
| Bosnia and Hercegovina | 26 | 1 | 99 |
| Albania | 22 | 1 | 100 |
| Montenegro | 8 | 0 | 100 |
| Iceland | 4 | 0 | 100 |
| Nicaragua | 1 | 0 | 100 |
| Tunisia | [...] | [...] | [...] |
| TOTAL | 3 675 | 100 | 100 |

likewise, account for 7 percent of the total value of preferential duty costs in the EU's free trade agreements. The findings at a total level are, accordingly, substantially more pronounced. This provides an indication of the economic importance of the under-utilisation of a number of the medium-sized free trade agreements.

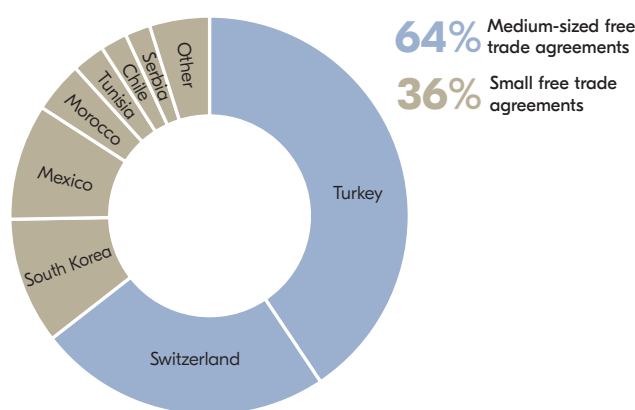
In order to understand the economic importance of the individual free trade agreements, the composition of the total value of preferential duty costs is analysed below.

The eight EU free trade agreements that generate the highest preferential duty costs (≥ 100 million euro) in partner countries by not utilising the available preferences account for 95 percent of the total value of preferential duty costs in the EU's free trade agreements. The remaining eight

EU free trade agreements that generate lower levels of preferential duty costs (< 100 million euro) account for 5 percent of the total value of preferential duty costs in the EU's free trade agreements (see Figure 19).

The EU free trade agreements EU-Turkey and EU-Switzerland that generate the highest preferential duty costs (≥ 100 million euro) in the EU by not utilising the available preferences, account for 64 percent of the total value of preferential duty costs in the EU's free trade agreements. The remaining fifteen EU free trade agreements that generate lower levels of preferential duty costs (< 100 million euro) account for 36 percent of the total value of preferential duty costs from the preference eligible imports in the EU's free trade agreements (see Figure 20).

Figure 20: Value of preferential duty costs by free trade agreement (average 2009-2013), EU imports



Source: Based on Eurostat and TRAINS data

| Free Trade Agreement (EUR millions) | EU imports | Share of total (%) | Cumulative share (%) |
|-------------------------------------|------------|--------------------|----------------------|
| Turkey | 256 | 41 | 41 |
| Switzerland | 151 | 24 | 64 |
| South Korea | 65 | 10 | 75 |
| Mexico | 59 | 9 | 84 |
| Morocco | 26 | 4 | 88 |
| Tunisia | 17 | 3 | 91 |
| Chile | 14 | 2 | 93 |
| Serbia | 13 | 2 | 95 |
| Egypt | 8 | 1 | 96 |
| Algeria | 6 | 1 | 97 |
| Albania | 4 | 1 | 98 |
| Bosnia and Hercegovina | 4 | 1 | 99 |
| Macedonia | 3 | 1 | 99 |
| Iceland | 2 | 0 | 100 |
| Lebanon | 1 | 0 | 100 |
| Montenegro | 1 | 0 | 100 |
| Nicaragua | 0 | 0 | 100 |
| TOTAL | 631 | 100 | 100 |

4

The one-sided under-utilisation of preferences in the EU's free trade agreements

The 'preference utilisation rates' and/or the 'preference savings rates' of the EU's free trade agreements are on average 75 percent and 77 percent, respectively. There are, however, some noticeable exceptions, mainly the lower 'preference utilisation rates' for some EU exporters and/or the lower 'preference savings rates' for some partner country importers (which mirror each other).

A high discrepancy in the 'preference utilisation rates' and/or the 'preference savings rates' between the parties of the same free trade agreement might indicate that for some reason it is more difficult for one of the parties to use the almost identical provisions of the free trade agreement.

Apart of the one-sided under-utilisation of preferences, which is possible to identify at country level, it is also important to identify 'pockets of under-utilisation' in free trade agreements where the preferences are utilised to a similar degree at country level. This will be the focus of future research.

Question: Is it possible to identify any under-utilisation of the EU's free trade agreements by any of the parties?

4.1 Identification of one-sided under-utilisation of preferences

In order to identify a possible under-utilisation of preferences in the EU's free trade agreements, discrepancies in the 'preference utilisation rates' and/or 'preference savings rates' between the

parties must be identified. In this report, a discrepancy of ≥ 20 percentage points is used as an indicative benchmark of one-sided under-utilisation of preferences. A large discrepancy might indicate a problem of one-sided under-utilisation of preferences since the provisions of the EU's free trade agreements are almost identical for both parties (with the exception of tariff reduction commitments during a transition period in some free trade agreements).

The one-sided under-utilisation of preferences might be related to the implementation of the free trade provisions in practice, for example the procedures at the customs border might differ between the parties. A certain flexibility in the implementation of free trade agreements is generally allowed, but it should not be to the detriment of the companies that wish to utilise the preferences. There might also be cases where the implementation at the border is not according to the provisions of the free trade agreements. The exact reasons for the one-sided under-utilisation of preferences – even though identified at country level – will have to be identified in forthcoming research at a more detailed level.

In the identification of the one-sided under-utilisation of preferences, it is also important to consider the time the free trade agreements have been in force. It might be generally assumed that free trade agreements have to be in force for a number of years in order to be used to an intermediate or higher degree. Relatively new free trade agreements (in force ≤ 5 years by 2013) are, accordingly, excluded from the identification of one-sided under-utilisation of preferences.

Table 2: Identification of under-utilised preferences ('preference utilisation rates') in the EU's free trade agreements (average 2009-2013)

| | Free trade agreement in force ≤5 years (by 2013) | | | Free trade agreement in force >5 years (by 2013) | | |
|--|---|---|-----------------------|---|---|-----------------------|
| | Free trade agreement | Discrepancy, preference utilisation rate (p.p.) | Time in force (years) | Free trade agreement | Discrepancy, preference utilisation rate (p.p.) | Time in force (years) |
| Discrepancy in preference utilisation rate ≤20 percentage points | EU-Serbia | -7 | 3 | EU-Albania | -8 | 7 |
| | EU-South Korea | -19 | 2 | EU-Turkey | -8 | 18 |
| | | | | EU-Algeria | -10 | 8 |
| | | | | EU-Iceland | -10 | 40 |
| | | | | EU-Chile | -11 | 10 |
| | | | | EU-Macedonia | -17 | 12 |
| | | | | EU-Switzerland | -19 | 40 |
| | | | | | | |
| Discrepancy in preference utilisation rate >20 percentage points | EU-Bosnia and Herzegovina | -24 | 5 | EU-Mexico | -25 | 13 |
| | EU-Montenegro | -27 | 5 | EU-Lebanon | -44 | 7 |
| | EU-Nicaragua | -85 | 1 | EU-Morocco | -45 | 13 |
| | | | | EU-Egypt | -50 | 9 |
| | | | | EU-Tunisia | -69 | 15 |

Source: Elaborated by the National Board of Trade Sweden and UNCTAD

4.1.1 The one-sided under-utilisation of preferences from an exporter perspective

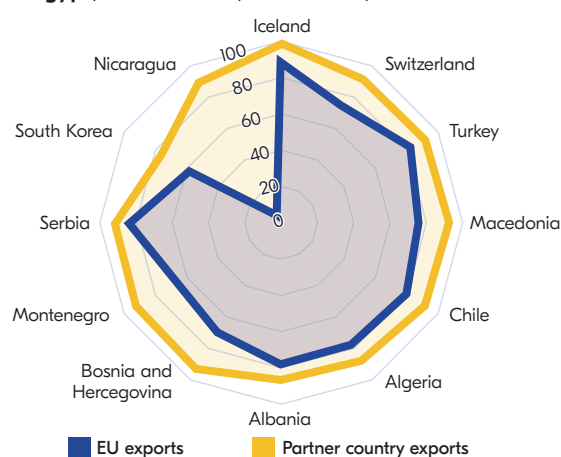
According to the above-mentioned approach, the under-utilisation of preferences in the EU's free trade agreements is identified in EU exports to Tunisia, Morocco, Egypt, Lebanon and Mexico (see Table 2). In practice, the discrepancy is above 40 percentage points in most of the identified free trade agreements. The lower discrepancy in Mexico is due to the low average 'preference utilisation rates' by both free trade parties.

In the identified free trade agreements, there is a high discrepancy in the 'preference utilisation rates' ranging from 21 percent in EU-Mexico to 65 percent in EU-Tunisia. There is also a high discrepancy in EU-Nicaragua and EU-

Montenegro, but these free trade agreements have been in force for less than five years (by the year 2013) and are accordingly excluded from the analysis.

If the free trade agreements with the highest discrepancies in the 'preference utilisation rates' (≥20 percentage points) and that have been in force for more than five years by 2013 are temporarily excluded from the analysis there would be a higher correlation between the 'preference utilisation rates' and the time the free trade agreements have been in force, as generally expected. The EU's total 'preference utilisation rate' increases with six percentage points to 73 percent. The total 'preference utilisation rate' of the partner countries, however, remains unchanged at 90 percent (see figure 21).

Figure 21: Preference utilisation rates in the EU's free trade agreements (average 2009-2013), in percent, chronological order, excl. EU-Egypt, EU-Lebanon, EU-Mexico, EU-Morocco and EU-Tunisia



Source: Based on European Commission and Eurostat data

| Free Trade Agreement (EUR millions) | EU exports (%) | Partner country exports (%) | Difference (p.p.) |
|--|----------------------|-----------------------------------|----------------------|
| Iceland | 88 | 98 | -10 |
| Switzerland | 72 | 91 | -19 |
| Turkey | 83 | 91 | -8 |
| Macedonia | 75 | 92 | -17 |
| Chile | 80 | 91 | -11 |
| Algeria | 77 | 87 | -10 |
| Albania | 78 | 86 | -8 |
| Bosnia and Herzegovina | 69 | 93 | -24 |
| Montenegro | 65 | 92 | -27 |
| Serbia | 84 | 91 | -7 |
| South Korea | 57 | 76 | -19 |
| Nicaragua | 4 | 89 | -85 |
| TOTAL | 73 | 90 | -17 |

Table 3: Identification of under-utilised preferences ('preference savings rates') in the EU's free trade agreements (average 2009-2013)

| | Free trade agreement in force ≤5 years (by 2013) | | | Free trade agreement in force >5 years (by 2013) | | |
|--|---|---|-----------------------|---|---|-----------------------|
| | Free trade agreement | Discrepancy, preference savings rate (p.p.) | Time in force (years) | Free trade agreement | Discrepancy, preference savings rate (p.p.) | Time in force (years) |
| Discrepancy in preference utilisation rate ≤20 percentage points | EU-Serbia | -9 | 3 | EU-Turkey | -4 | 18 |
| | EU-Bosnia and Hercegovina | -9 | 5 | EU-Algeria | -5 | 8 |
| | EU-South Korea | -18 | 2 | EU-Albania | -11 | 7 |
| | | | | EU-Iceland | -10 | 40 |
| | | | | EU-Switzerland | -12 | 40 |
| | | | | EU-Macedonia | -17 | 12 |
| Discrepancy in preference utilisation rate >20 percentage points | EU-Montenegro | -26 | 5 | EU-Mexico | -24 | 13 |
| | EU-Nicaragua | -86 | 1 | EU-Lebanon | -32 | 7 |
| | | | | EU-Chile | -34 | 10 |
| | | | | EU-Egypt | -47 | 9 |
| | | | | EU-Morocco | -49 | 13 |

Source: Elaborated by the National Board of Trade Sweden and UNCTAD

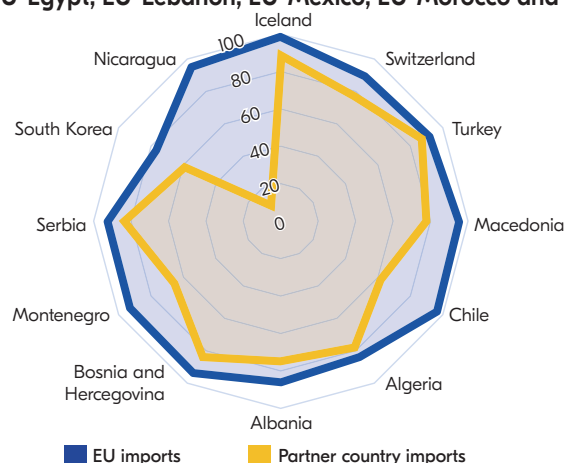
Note: EU-Tunisia is not included in the analysis due to the lack of data on preferential tariffs.

4.1.2 The one-sided under-utilisation of preferences from an importer perspective

According to the above-mentioned approach, the under-utilisation of preferences in the EU's free trade agreements is only identified in imports from the EU to a number of partner countries, i.e. Morocco, Egypt, Chile, Lebanon and Mexico (see Table 3). [Tunisia is not included in the analysis due to the lack of data on preferential tariffs, which hinders the calculation of the 'preference savings rate'.] In practice, the discrepancy is above 30 percentage points in most of the identified free trade agreements. The lower discrepancy in Mexico is due to the low average 'preference savings rates' by both free trade parties.

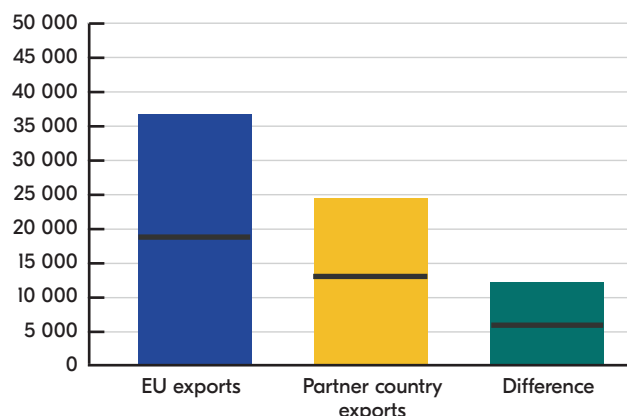
In the above-identified free trade agreements, there is a high discrepancy in the 'preference savings rates', ranging from 24 percent in EU-Mexico to 49 percent in EU-Morocco. There is also a high discrepancy in EU-Nicaragua and EU-Montenegro but these free trade agreements have been in force for less than five years (by the year 2013) and are accordingly excluded from the analysis. The high discrepancy in EU-Chile merits further research since this free trade agreement was not identified with regard to the one-sided underutilisation of preferences from the exporter perspective. The result might, accordingly, be due to the proxy data used for partner country imports from the EU.

Figure 22: Preference savings rates in the EU's free trade agreements (average 2009-2013), in percent, chronological order, excl. EU-Egypt, EU-Lebanon, EU-Mexico, EU-Morocco and EU-Tunisia



Source: Based on Eurostat, European Commission and Comtrade data

Figure 23: Value of utilised preferences in the EU's free trade agreements (average 2009-2013), EUR millions, excl. EU-Switzerland, EU-Turkey and EU-South Korea



Source: Based on European Commission, Comtrade and Eurostat data

| Free Trade Agreement (EUR millions) | EU exports | Partner country exports | Difference |
|-------------------------------------|---------------|-------------------------|--------------|
| Iceland | 338 | 2 096 | -1 758 |
| Tunisia | 1 889 | 5 700 | -3 810 |
| Mexico | 5 456 | 3 533 | 1 923 |
| Morocco | 6 796 | 6 258 | 537 |
| Macedonia | 1 287 | 860 | 427 |
| Chile | 3 717 | 2 403 | 1 314 |
| Egypt | 4 797 | 3 164 | 1 633 |
| Algeria | 5 378 | 1 751 | 3 627 |
| Albania | 840 | 338 | 502 |
| Lebanon | 1 781 | 126 | 1 655 |
| Bosnia and Hercegovina | 2 051 | 1 254 | 798 |
| Montenegro | 256 | 134 | 121 |
| Serbia | 4 071 | 2 412 | 1 660 |
| Nicaragua | 2 | 86 | -84 |
| TOTAL | 38 660 | 30 115 | 8 544 |

Note: The black line defines the share of the free trade agreements EU-Tunisia, EU-Morocco, EU-Egypt, EU-Lebanon and EU-Mexico where the preferences are identified as under-utilised by one party

If the free trade agreements with the highest discrepancies in the 'preference utilisation rates' (>20 percentage points) and that have been in force for more than five years by 2013 are temporarily excluded from the analysis there would be a higher correlation between the 'preference savings rates' and the time the free trade agreements have been in force, as generally expected. The total 'preference savings rate' of the partner countries increases with three percentage points to 71 percent. The total 'preference savings rate' of the EU, however, remains unchanged at 91 percent (see figure 22).

4.2 The economic importance of the one-sided under-utilisation of preferences

In order to estimate the relative economic importance of the medium-sized free trade agreements where a one-sided under-utilisation of preferences by one party has been identified with regard to both the 'preference utilisation rate' and the 'preference savings rate', i.e. EU-Tunisia, EU-Morocco, EU-Egypt, EU-Lebanon and EU-Mexico, the three largest free trade agreements – EU-Switzerland, EU-Turkey and EU-South Korea – are temporarily excluded from the analysis. Tunisia is included in the analysis in spite of the lack of data on preferential tariffs, which hinders the calculation of the 'preference savings rate', since the high discrepancy of the 'preference utilisation rate' for Tunisia indicates that a high discrepancy of the 'preference savings rate' would likely also be identified.

4.2.1 The impact on preferential trade values

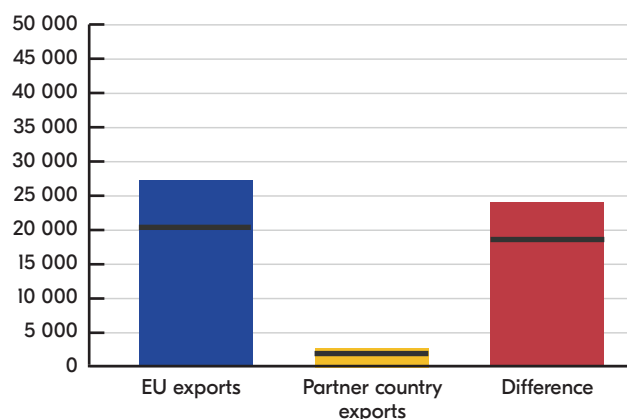
The value of utilised preferences: The medium-sized free trade agreements that are identified as under-utilised by the EU exporters – EU-Tunisia, EU-Morocco, EU-Egypt, EU-Lebanon and EU-Mexico – account for 23 percent of the net value of utilised preferences when the three largest free trade agreements are excluded from the analysis. If the free trade agreement EU-Tunisia is excluded from the analysis (in order to make the analysis comparable with the data on the value of preferential duties where there is no data from Tunisia), the net surplus of the under-utilised free trade agreements increases to 47 percent. The identified medium-sized free trade agreements are already important from an EU export perspective but their importance might increase if the preferences are utilised to higher values (see Figure 23).

The share of these free trade agreements would be 6 percent of the net value of utilised preferences if all free trade agreements, including the three largest, were considered in the analysis (or 16 percent with the exclusion of Tunisia).

The value of non-utilised preferences: The medium-sized free trade agreements that are identified as under-utilised by the EU exporters – EU-Tunisia, EU-Morocco, EU-Egypt, EU-Lebanon and EU-Mexico – account for as much as 80 percent of the net value of non-utilised preferences when the three largest free trade agreements are excluded from the analysis. If the free trade agreement EU-



Figure 24: Value of non-utilised preferences in the EU's free trade agreements in 2009, EUR millions, excl. EU-Switzerland, EU-Turkey and EU-South Korea

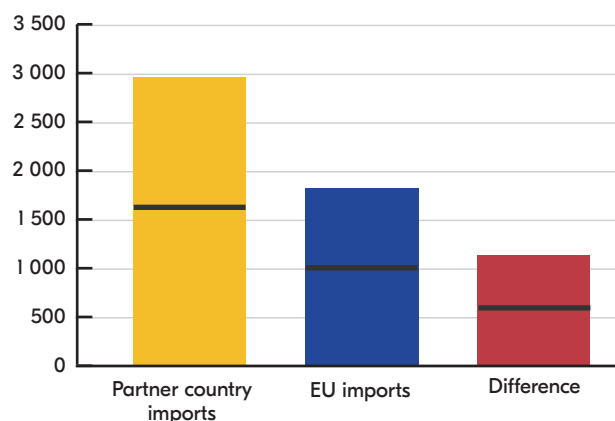


Source: Based on European Commission, Comtrade and Eurostat data

| Free Trade Agreement (EUR millions) | EU exports | Partner country exports | Difference |
|-------------------------------------|---------------|-------------------------|---------------|
| Iceland | 47 | 36 | 10 |
| Tunisia | 5 042 | 318 | 4 725 |
| Mexico | 5 359 | 1 599 | 3 760 |
| Morocco | 7 306 | 277 | 7 029 |
| Macedonia | 405 | 70 | 335 |
| Chile | 2 245 | 239 | 2 007 |
| Egypt | 5 442 | 186 | 5 256 |
| Algeria | 2 152 | 256 | 1 895 |
| Albania | 250 | 54 | 195 |
| Lebanon | 2 397 | 25 | 2 371 |
| Bosnia and Herzegovina | 462 | 99 | 363 |
| Montenegro | 195 | 12 | 184 |
| Serbia | 895 | 236 | 658 |
| Nicaragua | 53 | 11 | 43 |
| TOTAL | 32 249 | 3 418 | 28 831 |

Note: The black line defines the share of the free trade agreements EU-Tunisia, EU-Morocco, EU-Egypt, EU-Lebanon and EU-Mexico where the preferences are identified as underutilised by one party

Figure 25: Value of preferential duty savings in the EU's free trade agreements (average 2009-2013), EUR millions, excl. EU-Switzerland, EU-Turkey and EU-South Korea



Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

| Free Trade Agreement (EUR millions) | Partner country imports | EU imports | Difference |
|-------------------------------------|-------------------------|--------------|------------|
| Iceland | 27 | 150 | -122 |
| Tunisia | [...] | 397 | [...] |
| Mexico | 600 | 264 | 337 |
| Morocco | 741 | 534 | 207 |
| Macedonia | 121 | 59 | 62 |
| Chile | 193 | 321 | -128 |
| Egypt | 199 | 205 | -6 |
| Algeria | 607 | 32 | 575 |
| Albania | 64 | 26 | 37 |
| Lebanon | 78 | 7 | 71 |
| Bosnia and Herzegovina | 141 | 61 | 80 |
| Montenegro | 16 | 8 | 9 |
| Serbia | 180 | 155 | 25 |
| Nicaragua | 0 | 5 | -5 |
| TOTAL | 2 968 | 2 223 | 745 |

Note: The black line defines the share of the free trade agreements EU-Morocco, EU-Egypt, EU-Lebanon and EU-Mexico where the preferences are identified as underutilised by one party. EU-Tunisia is not included in the analysis due to the lack of data on preferential tariffs.



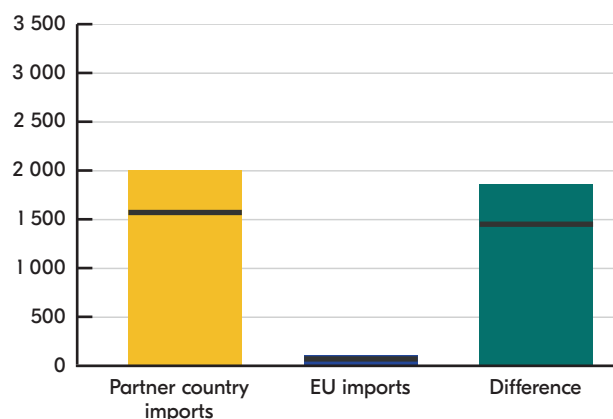
Tunisia is excluded from the analysis (in order to make the analysis comparable with the data on the value of preferential duties where there is no data from Tunisia), the net surplus of the under-utilised free trade agreements is 76 percent. The medium-sized free trade agreements where one-sided under-utilisation of preferences is identified account accordingly for more than three-quarters of the value of non-utilised preferences of the medium-sized and small free trade agreements (see Figure 24).

The share of these free trade agreements would be 38 percent of the net value of non-utilised preferences if all free trade agreements, including the three largest free trade agreements, were considered in the analysis (or 33 percent with the exclusion of Tunisia).

4.2.2 The impact on preferential duty values

The value of preferential duty savings: The medium-sized free trade agreements that are identified as under-utilised by partner country importers – EU-Morocco, EU-Egypt, EU-Lebanon and EU-Mexico – account for 53 percent of the net value of preferential duty savings when the three largest free trade agreements are excluded from the analysis. [Tunisia is not included in the analysis due to the lack of data on preferential tariffs, which hinders the calculation of their preferential duty savings.] The identified free trade agreements are already important from a partner country importer perspective but their importance might increase if the preferences were utilised to higher values (see Figure 25).

Figure 26: Value of preferential duty costs in the EU's free trade agreements (average 2009-2013), EUR millions, excl. EU-Switzerland, EU-Turkey and EU-South Korea



Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

| Free Trade Agreement (EUR millions) | Partner country imports | EU imports | Difference |
|-------------------------------------|-------------------------|------------|--------------|
| Iceland | 4 | 2 | 1 |
| Tunisia | [...] | 17 | [...] |
| Mexico | 447 | 59 | 388 |
| Morocco | 862 | 26 | 835 |
| Macedonia | 35 | 3 | 32 |
| Chile | 119 | 14 | 105 |
| Egypt | 203 | 8 | 195 |
| Algeria | 169 | 6 | 162 |
| Albania | 22 | 4 | 17 |
| Lebanon | 66 | 1 | 65 |
| Bosnia and Herzegovina | 26 | 4 | 22 |
| Montenegro | 8 | 1 | 8 |
| Serbia | 35 | 13 | 22 |
| Nicaragua | 1 | 0 | 1 |
| TOTAL | 1 996 | 160 | 1 837 |

Note: The black line defines the share of the free trade agreements EU-Morocco, EU-Egypt, EU-Lebanon and EU-Mexico where the preferences are identified as underutilised by one party. EU-Tunisia is not included in the analysis due to the lack of data on preferential tariffs.

The share of these free trade agreements would be 32 percent of the net value of preferential duty savings if all free trade agreements, including the three largest free trade agreements were considered in the analysis.

The value of preferential duty costs: The medium-sized free trade agreements that are identified as under-utilised by the partner country importers – EU-Morocco, EU-Egypt, EU-Lebanon and EU-Mexico – account 80 percent of the net value of preferential duty costs when the three largest free trade agreements are excluded from the analysis. [Tunisia is not included in the analysis due to the lack of data on preferential tariffs, which hinders the calculation of the preferential duty costs.] The free trade agreements where under-utilisation of preferences is identified account accordingly for more than three-quarters of the value of preferential duty costs of medium-sized and small free trade agreements (see Figure 26).

The share of these free trade agreements would be 49 percent of the net value of preferential duty costs if all free trade agreements, including the three largest free trade agreements, were considered in the analysis.

4.3 Identification of ‘pockets of under-utilisation’ of preferences

Although the ‘preference utilisation rates’ and/or ‘preference savings rates’ are on average 75 per-

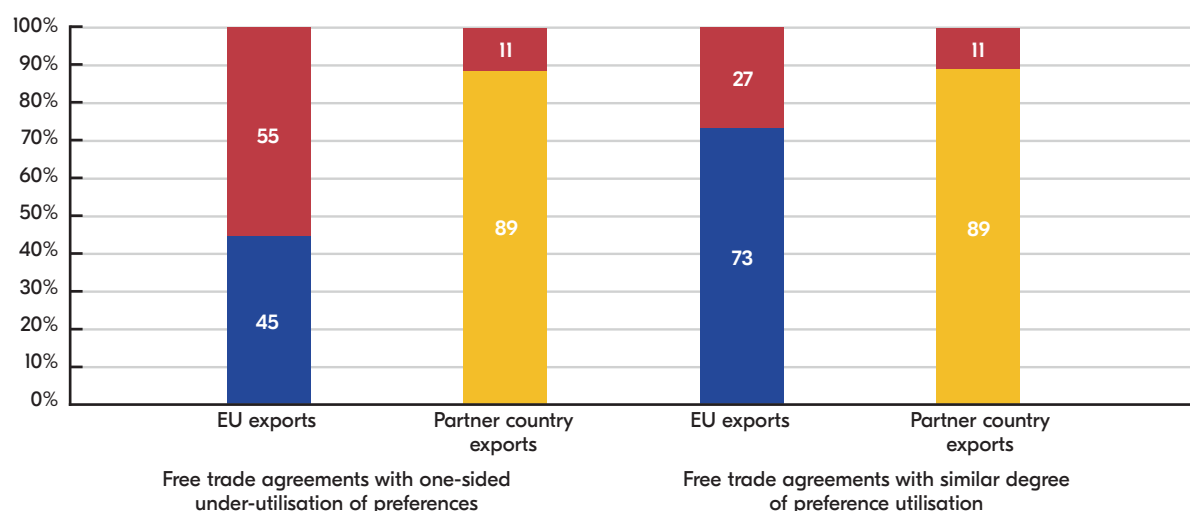
cent and 77 percent, respectively, in the EU’s free trade agreements, it is still possible to increase the utilisation of preferences. Even relatively small increases in the utilisation of preferences in the largest free trade agreements with regard to the values of preference eligible trade might generate substantial preferential exports and/or preferential duty savings in economic terms for both parties.

For example, an increase in the preference utilisation of the free trade agreements EU-Switzerland, EU-Turkey and EU-South Korea would likely have the largest overall impact on the ‘preference utilisation rates’ and/or the ‘preference savings rates’ of the EU’s free trade agreements at a total level – even though they are generally used to a high degree and at a rather similar level between the parties.

As previously observed, the one-sided under-utilisation of preferences is relatively easy to identify and target at country level. In addition, the non-utilisation of preferences in these free trade agreements constitutes 55 percent of EU exports to the partner countries concerned and/or 49 percent of the imports of the partner countries concerned from the EU. However, the ‘pockets of under-utilisation’ in the remaining free trade agreements (with a similar degree of preference utilisation at country level) constitute as much as 27 percent of the EU exports to the partner countries concerned and/or 25 percent of the imports of the partner countries concerned from the EU. The ‘pockets of under-utilisation’ for partner country exporters and EU importers are on aver-

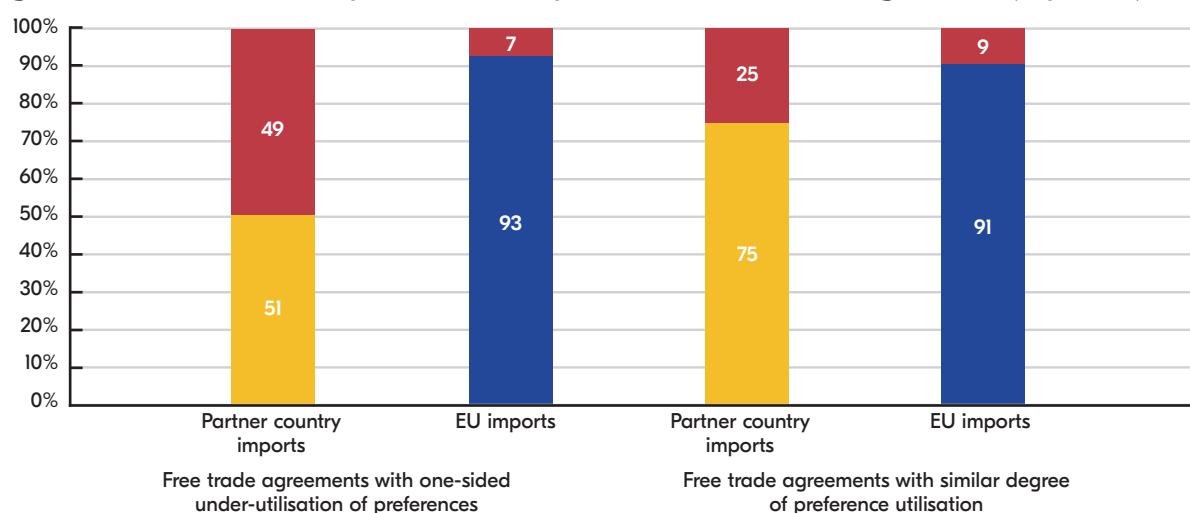


Figure 27: Under-utilisation of preferences at export in the EU's free trade agreements (in percent)



Source: Based on European Commission, Comtrade and Eurostat data

Figure 28: Under-utilisation of preferences at import in the EU's free trade agreements (in percent)



Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

age only about 10 percent. It seems, accordingly, that also the ‘pockets of under-utilisation’ are particularly a problem for the EU exporters and/or partner country importers (see Figures 27 and 28).

The ‘pockets of under-utilisation’ are not as easy to identify and target at country level as the one-sided under-utilisation of preferences. The ‘pockets of under-utilisation’ must be identified on a detailed level in individual free trade agreements since they are likely related to the product-

specific provisions of the free trade agreements, such as rules of origin. The ‘pockets of under-utilisation’ might possibly be identified at a product-specific level when the preference margins are high and the values of preference eligible trade are high, i.e. where the preferential duty costs are high, but the ‘preference utilisation rates’ and/or the ‘preference savings rates’ are low. This will be focus of forthcoming research.

5

Who benefits from the use of the EU's free trade agreements?

This report presents various interrelated indicators on the use of the EU's free trade agreements. It is, accordingly, relevant to analyse the preference utilisation of the EU's free trade agreements from different perspectives. It is also relevant to analyse to what extent the parties of the EU's free trade agreements benefit on average from using the free trade agreements.

Question: Who benefits from the use of the EU's free trade agreements?

5.1 Different perspectives on the use of the EU's free trade agreements

The main interrelated perspectives on preference utilisation presented in this report are: (i) the preference utilisation in relative terms vs. absolute terms; (ii) the exporter perspective vs. the importer perspective; and (iii) the private sector perspective vs. the public sector perspective.

5.1.1 Preference utilisation in relative terms vs. absolute terms

The exporter perspective, based on the 'preference utilisation rates', indicates that partner country exporters utilise the EU's free trade agreements to a higher degree in relative terms. However, the importer perspective, based on the 'preference savings rates', indicates that EU importers utilise the EU's free trade agreements to the highest degree in relative terms. If the absolute values of preferential exports are considered, the picture

would be the opposite – EU exporters utilise the preferences to the highest value and partner country importers benefit from the preferential duty savings to the highest value. The exporter perspective and the importer perspective as well as the relative perspective and the absolute perspective are, accordingly, mirroring each other (see Table 4).

If the private sector perspective – with regard to preferential duty savings – is considered, EU importers are the main beneficiaries in relative terms but partner country importers are the main beneficiaries in absolute terms. If seen from the public sector perspective – with regard to tariff revenues – the customs authorities in partner countries are the main “beneficiaries” in both relative and absolute terms. The issue of tariff revenues should, however, not be permitted to be a *de facto* limitation to utilise the preferences if the conditions for doing so are fulfilled, since this is the outcome of a negotiation between both parties. The private sector perspective and the public sector perspective as well as the relative perspective and the absolute perspective are, accordingly, mirroring each other (see Table 5).

5.1.2 The exporter perspective vs. the importer perspective

The exporter perspective shows that EU exporters utilise the EU's free trade agreements to the highest value in absolute terms – 33 billion euro more than partner country exporters. In any case, the exporter perspective shows that EU exporters also dominate when it comes to the trade value of non-utilised preferences – 60 billion euro more than partner country exporters. There



Table 4: Scheme on the exporter perspective vs. the importer perspective on preference utilisation, the relative vs. the absolute importance

| | Exporter perspective | | Importer perspective | |
|---------------------|---|---|---|---|
| | + | - | + | - |
| Relative importance | Partner countries (Preference utilisation rate) | EU (Rate of non-utilisation of preferences) | EU (Preference savings rate) | Partner countries (Preference costs rate) |
| Absolute importance | EU (Utilised preferences in value) | EU (Non-utilised preferences in value) | Partner countries (Preference savings rate) | Partner countries (Preference costs rate) |

Source: Elaborated by the National Board of Trade and UNCTAD

Note: This scheme shows the highest utilisers of the preferences at both relative and absolute level — from both the exporter perspective and the importer perspective. The scheme also shows the highest non-utilisers of available preferences but the indicators on the 'rate of non-utilisation of preferences' and the 'preference costs rate' are only included for illustrative purposes and not analysed in the report since the focus is on the main beneficiaries.

Table 5: Scheme on the private sector perspective vs. the public sector perspective on preference utilisation, the relative vs. the absolute importance

| | Private sector perspective (duty savings) | | Public sector perspective (tariff revenues) | |
|---------------------|---|---|---|--|
| | + | - | + | - |
| Relative importance | EU (Preference savings rate) | Partner countries (Preference costs rate) | Partner countries (Preference revenue rate) | EU (Preference lost revenue rate) |
| Absolute importance | Partner countries (Preference savings rate) | Partner countries (Preference costs rate) | Partner countries (Tariff revenue obtained) | Partner countries (Tariff revenue forgone) |

Source: Elaborated by the National Board of Trade and UNCTAD

Note: This scheme shows the highest beneficiaries of the preferences at both relative and absolute level — from both the private sector perspective and the public sector perspective. The scheme also shows the highest non-beneficiaries of available preferences. The indicators 'preference costs rate', 'preference revenue rate' and 'preference lost revenue rate' are only included for illustrative purposes and not discussed in the report

Table 6: Scheme on the exporter perspective vs. the importer perspective on preference utilisation, the relative vs. the absolute importance, in real terms (in percent and in euro)

| | Exporter perspective | | Importer perspective | |
|---------------------|--|--|---|---|
| | + | - | + | - |
| Relative importance | 90% (Preference utilisation rate) | 33% (Rate of non-utilisation of preferences) | 91% (Preference savings rate) | 32% (Preference costs rate) |
| Absolute importance | 33 billion (Utilised preferences in value) | 60 billion (Non-utilised preferences in value) | 1.5 billion (Preference savings rate) | 3 billion (Preference costs rate) |

Source: Elaborated by the National Board of Trade and UNCTAD

Note: This scheme shows the highest utilisers of the preferences at both relative and absolute level – from both the exporter perspective and the importer perspective. The scheme also shows the highest non-utilisers of available preferences but the indicators on the 'rate of non-utilisation of preferences' and the 'preference costs rate' are only included for illustrative purposes and not analysed in the report since the focus is on the main beneficiaries.

Table 7: Scheme on the private sector perspective vs. the public sector perspective on preference utilisation, the relative vs. the absolute importance, in real terms (in percent and in euro)

| | Private sector perspective (duty savings) | | Public sector perspective (tariff revenues) | |
|---------------------|---|---|---|--|
| | + | - | + | - |
| Relative importance | 91% (Preference savings rate) | 32% (Preference costs rate) | 32% (Preference revenue rate) | 91% (Preference lost revenue rate) |
| Absolute importance | 1.5 billion (Preference savings rate) | 3 billion (Preference costs rate) | 3 billion (Tariff revenue obtained) | 1.5 billion (Tariff revenue forgone) |

Source: Elaborated by the National Board of Trade and UNCTAD

Note: This scheme shows the highest beneficiaries of the preferences at both relative and absolute level – from both the private sector perspective and the public sector perspective. The scheme also shows the highest non-beneficiaries of available preferences. The indicators 'preference costs rate', 'preference revenue rate' and 'preference lost revenue rate' are only included for illustrative purposes and not discussed in the report

is, accordingly, a great potential for higher utilisation of the available preferences in EU exports. The overall picture is best visualised by the 'preference utilisation rate' – a relative measure that shows that EU exporters use the free trade agreements to 67 percent while partner country exporters use the free trade agreements to 90 percent. Partner country exporters are, therefore, utilising the preferences to the highest degree in relative terms (see Table 5).

The importer perspective shows that partner country importers utilise the EU's free trade agreements to the highest value in absolute terms – 1.5 billion euro more in preferential duty savings than EU importers. In any case, the importer perspective shows that partner country importers also pay the highest duty costs by not utilising the preferences – 3 billion euro more

than EU importers. The overall picture is, accordingly, best visualised by the 'preference savings rate' that shows that partner country importers only use the free trade agreements to 68 percent while the EU importers use the free trade agreements to 91 percent. The EU importers are, accordingly utilising the preferences to the highest degree in relative terms (see Table 6).

5.1.3 The private sector perspective vs. the public sector perspective

The preferences in free trade agreements are important to the private sector (both exporters and importers). The preferential duty savings constitute an incentive and competitive advantage for exporters and a direct benefit to importers in relation to companies in countries that are not parties of the free trade agreement, or com-

panies within the free trade area that do not utilise the preferences. The preferential duty costs, on the other hand, might discourage trade if the preferences might not be utilised for different reasons. At a total level, partner countries obtain preferential duty savings of 7.9 billion euro and the EU obtains preferential duty savings of 6.4 billion euro. The net preferential duty savings for partner country importers is, accordingly, 1.5 billion euro (see Table 7).

Notwithstanding this, preferential duty savings and/or costs are also an issue of public sector income – forgone and/or obtained – within each party of a free trade agreement. The preferential duty savings of importers are potentially lost tariff revenues for customs authorities in the importing countries – provided that the imports would have taken place in the absence of preferential duty savings. At the same time, the preferential duty costs of importers are tariff revenues for customs authorities in the importing countries – provided that the imports will continue to take place with maintained duty costs. At a total level, partner countries obtain tariff revenues of 3.7 billion euro and the EU obtains tariff revenues of 0.6 billion euro. The net preferential tariff revenues for partner country importers is, accordingly, 3 billion euro (see Table 6).

The issue of tariff revenues should, however, not be permitted to be a *de facto* limitation to utilise the preferences if the conditions are fulfilled, since this is the outcome of a negotiation between both parties. This aspect is, however, important to consider in future research when border-related aspects related to the one-sided under-utilisation of preferences are analysed.

5.2 Integrating the perspectives – benefits and costs of using the EU's free trade agreements

An approach to estimate the interrelationship between the exporter perspective and the importer perspective on preference utilisation – and to estimate the average benefits and costs of using the free trade agreements – is to calculate the average preference margin for utilising the preferences and/or the average preference margin for not utilising the preferences. These indi-

cators show the average preference margins saved by utilising the preferences in the free trade agreements and/or the average preference margins paid by not utilising the preferences in the free trade agreements. These average preference margins might also provide an indication on the compliance costs of utilising the preferences in the free trade agreements.

It should be noted that these indicators, to a certain degree, also depend on the already existing preference margins of the parties in the free trade agreements, which differ between free trade parties. Free trade parties that have maintained high applied 'most favoured nation' tariffs will likely obtain slightly higher results with regard to preferential duty savings and/or preferential duty costs in the free trade agreements. The indicators also depend on the production and trade structures of the free trade parties. Accordingly, the indicators should preferably be used as a comparative measure of the development of the preference utilisation of individual free trade agreements and/or products in these free trade agreements over time. In any case, the average preference margins of partner countries are, likely, more comparable between the free trade agreements since the EU has the same applied 'most favoured nation' tariff against all free trade parties, and the preferential conditions are generally similar.

5.2.1 The average preference margins of utilised preferences in the EU's free trade agreements

The average preference margin for utilising the preferences is calculated as the value of the preferential duty savings by utilising the preferences as a share of the value of the utilised preferences i.e. the import value. The indicator shows the average preference margin that EU and partner countries save by utilising the preferences in the EU's free trade agreements.

The average preference margins by utilising the preferences for partner country importers are highest in the free trade agreements EU-Algeria, EU-Mexico and EU-Morocco. The average preference margins saved by utilising the preferences for EU importers are highest in the free trade agreements EU-Chile and EU-Morocco. The total average preference margin for utilising the preferences is the same for the EU and partner countries, i.e. about 6 percent (even though the calculations are based on different data sets at a detailed level). This might

Table 8: Value of utilised preferences and duty savings by free trade agreement (average 2009-2013), partner country preferential import and duty savings

| Free Trade Agreement (EUR millions) | Partner country imports | Partner country duty savings | Average preference margin |
|--|-------------------------------|------------------------------------|---------------------------------|
| Switzerland | 48 082 | 1 965 | 4 |
| Turkey | 34 182 | 1 728 | 5 |
| South Korea | 17 195 | 1 223 | 7 |
| Morocco | 6 796 | 741 | 11 |
| Mexico | 5 456 | 600 | 11 |
| Algeria | 5 378 | 607 | 11 |
| Egypt | 4 797 | 199 | 4 |
| Serbia | 4 071 | 180 | 4 |
| Chile | 3 717 | 193 | 5 |
| Bosnia and Herzegovina | 2 051 | 141 | 7 |
| Tunisia | 1 889 | [...] | [...] |
| Lebanon | 1 781 | 78 | 4 |
| Macedonia | 1 287 | 121 | 9 |
| Albania | 840 | 64 | 8 |
| Iceland | 338 | 27 | 8 |
| Montenegro | 256 | 16 | 6 |
| Nicaragua | 2 | 0 | 7 |
| TOTAL | 138 119 | 7 883 | 6 |

Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

Note: EU-Tunisia is not included in the analysis due to the lack of data on preferential tariffs.

Table 9: Value of utilised preferences and duty savings by free trade agreement (average 2009-2013), EU preferential import and duty savings

| Free Trade Agreement (EUR millions) | EU imports | EU duty savings | Average preference margin |
|--|----------------|--------------------|---------------------------------|
| Turkey | 34 599 | 2 684 | 8 |
| Switzerland | 34 280 | 1 274 | 4 |
| Morocco | 6 258 | 534 | 9 |
| South Korea | 5 908 | 216 | 4 |
| Tunisia | 5 700 | 397 | 7 |
| Mexico | 3 533 | 264 | 7 |
| Egypt | 3 164 | 205 | 6 |
| Serbia | 2 412 | 155 | 6 |
| Chile | 2 403 | 321 | 13 |
| Iceland | 2 096 | 150 | 7 |
| Algeria | 1 751 | 32 | 2 |
| Bosnia and Herzegovina | 1 254 | 61 | 5 |
| Macedonia | 860 | 59 | 7 |
| Albania | 338 | 26 | 8 |
| Montenegro | 134 | 8 | 6 |
| Lebanon | 126 | 7 | 5 |
| Nicaragua | 86 | 5 | 6 |
| TOTAL | 104 903 | 6 396 | 6 |

Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

Table 10: Value of non-utilised preferences and duty costs by free trade agreement (average 2009-2013), partner country preferential import and duty costs

| Free Trade Agreement (EUR millions) | Partner country imports | Partner country duty costs | Average preference margin |
|--|-------------------------------|----------------------------------|---------------------------------|
| Switzerland | 21 754 | 561 | 3 |
| South Korea | 12 518 | 870 | 7 |
| Morocco | 7 306 | 862 | 12 |
| Turkey | 5 865 | 248 | 4 |
| Egypt | 5 442 | 203 | 4 |
| Mexico | 5 359 | 447 | 8 |
| Tunisia | 5 042 | [...] | [...] |
| Lebanon | 2 397 | 66 | 3 |
| Chile | 2 245 | 119 | 5 |
| Algeria | 2 152 | 169 | 8 |
| Serbia | 895 | 35 | 4 |
| Bosnia and Herzegovina | 462 | 26 | 6 |
| Macedonia | 405 | 35 | 9 |
| Albania | 250 | 22 | 9 |
| Montenegro | 195 | 8 | 4 |
| Nicaragua | 53 | 1 | 2 |
| Iceland | 47 | 4 | 8 |
| TOTAL | 72 387 | 3 675 | 5 |

Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

Note: EU-Tunisia is not included in the analysis due to the lack of data on preferential tariffs.

Table 11: Value of non-utilised preferences and duty costs by free trade agreement (average 2009-2013), EU preferential import and duty costs

| Free Trade Agreement (EUR millions) | EU imports | EU duty costs | Average preference margin |
|--|---------------|------------------|---------------------------------|
| Switzerland | 3 476 | 151 | 4 |
| Turkey | 3 374 | 256 | 8 |
| South Korea | 1 904 | 65 | 3 |
| Mexico | 1 599 | 59 | 4 |
| Tunisia | 318 | 17 | 5 |
| Morocco | 277 | 26 | 9 |
| Algeria | 256 | 6 | 2 |
| Chile | 239 | 14 | 6 |
| Serbia | 236 | 13 | 5 |
| Egypt | 186 | 8 | 4 |
| Bosnia and Herzegovina | 99 | 4 | 4 |
| Macedonia | 70 | 3 | 5 |
| Albania | 54 | 4 | 8 |
| Iceland | 36 | 2 | 7 |
| Lebanon | 25 | 1 | 4 |
| Montenegro | 12 | 1 | 5 |
| Nicaragua | 11 | 0 | 2 |
| TOTAL | 12 171 | 631 | 5 |

Source: Based on European Commission, Comtrade, Eurostat and TRAINS data



indicate that the preference margin, on average, has to be higher than 6 percent in order for the preferences to be utilised (see Tables 8-9). This finding would, however, need further research.

5.2.2 The average preference margins of non-utilised preferences in the EU's free trade agreements

The average preference margin for not utilising the preferences is calculated as the value of the preferential duty costs by not utilising the preferences as a share of the value of the non-utilised preferences i.e. the import value. The rate gives an indication of the average preference margins that EU and partner countries pay instead of utilising the preferences in the EU's free trade agreements.

The average preference margins for not utilising the preferences for partner country importers are highest in the free trade agreements with EU-Morocco, EU-Albania and EU-the former Yugoslav Republic of Macedonia. The average preference margin for not utilising the preferences for EU importers are highest in the free trade agreements EU-Morocco, EU-Albania and EU-Turkey. The total average preference margin for not utilising the preferences is the same for

both EU and partner countries, i.e. about 5 percent (even though the calculations are based on different data sets at a detailed level). This might indicate that the preference margins, on average, are not utilised if they are under 5 percent (see Tables 10-11). This finding would, however, need further research.

5.2.3 Concluding findings on benefits and costs of using the EU's free trade agreements

In order to conclude, it seems that the average preference margins of the EU's free trade agreements are between 5 and 6 percent for the preferences to be utilised or not (based on current reality). The duty savings obtained by using the EU's free trade agreements benefit, accordingly, both the EU and the partner countries to a fairly equal degree at total level. Even though the preferential duty savings increase with the utilisation of a high preference margin, the lower the average preference margins is likely better, since small preference margins would also be utilised this way and generate substantial duty savings. These provisional findings would, however, benefit from further analysis at a detailed and product-specific level.

Concluding remarks

This report analyses to what extent the EU and its partner countries use existing free trade agreements in reality. In order to facilitate the analysis, this report presents data on the use of the possible tariff reductions for both parties of the EU's free trade agreements, and from both an exporter and importer perspective. The report also presents data on the values of exports and duty savings obtained by using the EU's free trade agreements – as well as the values of exports and duty costs faced by not using them.

The main research questions and findings from the analysis are the following:

What is the use of the EU's free trade agreements by EU and partner country exporters and importers?

About two-thirds of EU exports to partner countries use the free trade agreements whereas the corresponding number for partner country exports to the EU is as high as 90 percent. These numbers are, however, based on the value of exports and may not necessarily imply that most companies use the free trade agreements. This means that even though most trade in terms of value takes advantage of the tariff reductions, there might still be a large number of smaller companies that do not take full advantage of the benefits of free trade agreements. The import perspective mirrors the export perspective.

What are the exporter trade values of using and not using the EU's free trade agreements?

The value of exports using the free trade agreements is higher for EU exporters than for partner country exporters – the net difference is 33 billion euro. However, the value of exports not using the free trade agreements is also considerably higher for the EU than for partner countries – the net difference is 60 billion euro. This amount is a lost opportunity or future potential for EU exporters.

What are the importer duty values of using and not using the EU's free trade agreements?

The value of duty savings by the partner country importers of using the free trade agreements is higher than the value of duty savings by the EU importers – the net difference is 1,5 billion euro. However, the absolute value of duty costs by partner country importers of using the free trade agreements is also considerably higher for the partner countries than for the EU – the net difference is 3,1 billion euro. This amount represents a lost opportunity or future potential for partner country importers.

Is it possible to identify any under-utilisation of the EU's free trade agreements by any of the parties?

The largest under-utilisation of the EU's free trade agreements is found among EU exporters in

their trade with Tunisia, Morocco, Egypt, Lebanon and Mexico. The one-sided under-utilisation of the possibilities for tariff reduction in these free trade agreements account for about 40 percent of the total value of exports or duty costs of not using the EU's free trade agreements (or as much as 80 percent if only the medium-sized free trade agreements are considered). This one-sided under-utilisation of the possibilities for tariff reduction is, accordingly, a large lost opportunity or future potential in the use of the EU's free trade agreements. This one-sided under-utilisation of preferences might be border-related and in need of trade facilitation initiatives. The import perspective mirrors the export perspective.

Who benefits from the use of the EU's free trade agreements?

The duty savings achieved by using the EU's free trade agreements benefit both the EU and partner countries. The duty savings are on average about 6 percent of the import values for both parties of the EU's free trade agreements. This implies that both parties benefit from the use of the EU's free trade agreements to a fairly equal degree at a total level.

Additional considerations for future research: Even though the use of the possibilities of tariff reductions in the EU's free trade agreements is

on average about 75 percent, it is important to identify possible pockets of low utilisation at a more detailed level. The identification of possibly cumbersome provisions and their causes is an important step to improving the export and/or import performances of the EU and its partner countries, and the possibilities to actually benefit from tariff reduction in free trade agreements. These pockets of low utilisation have to be identified in the individual free trade agreements and at an industry and/or product-specific level. It is also important to identify the main incentives or 'drivers' for using and/or obstacles for not using the EU's free trade agreements in order to provide more empirical facts for the understanding of the use of free trade agreements in reality. This will be the focus of future research by the National Board of Trade Sweden and UNCTAD.

This report aims to inspire future analysis of the use of free trade agreements by making data on their use more publicly available. The monitoring of the use of free trade agreements should preferably be an ongoing exercise in order to identify and analyse to what extent exporters and importers actually use them in their business decisions, in order to make the free trade agreements work for all.

Annex I: Data sources and methods used for the indicators on preference utilisation

Different data sources and methods have been used for the different indicators on preference utilisation. The main data sources used in the report are:

- (i) data on EU ‘preference utilisation rates’ (partner country imports from the EU) from the European Commission;
- (ii) data on preferential trade (EU imports from partner countries) from the European Commission’s Eurostat database;
- (iii) data on external trade (partner country imports from the EU) from the United Nations’ Comtrade database; and
- (iv) data on MFN tariffs and preferential tariffs of the free trade parties from the UNCTAD’s Trade Analysis Information System (TRAINS) database.

In this report, the preference utilisation indicators are based on value and not on volume in order to make all indicators used in the analysis comparable. An analysis based on volume would also be relevant in case of price and exchange rate fluctuations for certain products and countries. This would, however, be more relevant in an analysis at a more detailed and product-specific level.

EU-Turkey is included among the free trade agreements – and sometimes referred to as a free trade agreement in the report for reasons of simplicity – even though it is a customs union. In order for products to benefit from the free circulation between the parties, an A.TR. certificate must be included with the transactions. In trade with agricultural products, as well as coal and

steel products, free trade agreement provisions, such as rules of origin, are applied.

In the following, the data and methods used for the calculation of each indicator will be presented for the EU and partner countries. In general, import data are used as an approximation for ‘exports’ since import data are the only data available with regard to preference utilisation. In addition, import data are generally considered as more reliable than export data.

Preference utilisation rates

EU exports

The ‘preference utilisation rates’ for the EU’s exports to partner countries are based on data from the European Commission on preference utilisation at HS Section level and total level. The EU ‘preference utilisation rates’ at HS Section level and total level are calculated by the European Commission by using the weight of the value of preference eligible trade from the lowest level of aggregation available, which varies between partner countries depending on the data that was submitted by the partner countries to the EU. In most cases, data on HS4-digit level were available.

The data on the EU’s ‘preference utilisation rates’ are not available for all partner countries. The European Commission has obtained preferential import data from 20 current free trade partners (on partner country preferential imports from the EU) but for reasons of comparability, data from 17 free trade partners are used in this

analysis. The data on preferential imports obtained by the European Commission are not complete for all years 2009-2013 (see Table A). The alleged 'five-year average' in the report is, accordingly, based on the available number of years, ranging from five years for some partner countries (Turkey, Chile, Egypt, Albania and Lebanon) to three years for other partner countries (Iceland, Tunisia and Morocco). In the cases

of EU-Serbia, EU-South Korea and EU-Nicaragua, free trade agreements had not been in place for five years in 2013 but data for all corresponding years are available.

The data on preferential imports from the partner countries are collected and processed according to methods and procedures that are likely to differ between partner countries. In addition, due to certain discrepancies in the data on preferen-

Table A: 'Preference utilisation rates' of the EU's free trade agreements for partner countries for the years where data are available 2009-2013 (in percent)

| Partner country | 2009 | 2010 | 2011 | 2012 | 2013 | Average | Available years |
|------------------------|------|------|------|------|------|---------|-----------------|
| Iceland | | | 91 | 91 | 83 | 88 | 3 |
| Switzerland | | 70 | 71 | 71 | 75 | 72 | 4 |
| Turkey | 78 | 80 | 74 | 88 | 96 | 83 | 5 |
| Tunisia | 28 | 25 | 24 | | | 26 | 3 |
| Mexico | 50 | 42 | 45 | 37 | | 44 | 4 |
| Morocco | | 40 | 53 | 59 | | 51 | 3 |
| Macedonia | 70 | | 68 | 75 | 88 | 75 | 4 |
| Chile | 83 | 81 | 81 | 78 | 78 | 80 | 5 |
| Egypt | 38 | 39 | 49 | 45 | 51 | 44 | 5 |
| Algeria | 82 | 76 | 83 | | 65 | 77 | 4 |
| Albania | 79 | 79 | 80 | 81 | 70 | 78 | 5 |
| Lebanon | 26 | 35 | 36 | 34 | 65 | 39 | 5 |
| Bosnia and Hercegovina | 63 | 70 | 72 | 71 | | 69 | 4 |
| Montenegro | | 57 | 63 | 63 | 77 | 65 | 4 |
| Serbia | - | 79 | 82 | 86 | 88 | 84 | 4 |
| South Korea | - | - | 46 | 61 | 65 | 57 | 3 |
| Nicaragua | - | - | - | - | 4 | 4 | 1 |
| Average | 63 | 64 | 66 | 70 | 75 | 67 | |
| Available years | 10 | 13 | 16 | 14 | 13 | | |

Source: Based on Nilsson, Lars 'EU Exports and Uptake of Preferences: A First Analysis' (2016) 50 Journal of World Trade, Issue 2, pp. 219–252.

tial imports from partner countries, the data have been processed by the European Commission:

*“In some cases the submission of a partner country’s preferential imports from the EU had to be complemented with additional data on the partner country’s total imports from the EU, including supplementary information on which products were eligible for preferences.” Furthermore, the availability of data differs among countries with respect to the level of product aggregation. “Due to lack of consistency between data from different sources, certain decisions had to be taken. For instance, when the value of preferential imports from the EU was higher than its total imports from the EU these observations were dropped.” “If there was a discrepancy between national data from the partner countries and the external sources consulted [...] the data from the partner countries have been considered to be correct.” “When complementing the trade [and] tariff data from other sources and no match was found at the lowest level of aggregation, the average tariff at the next higher level of aggregation was used. If possible, a weighted average has been estimated; otherwise a simple average was used. If there was no match at HS4 level, the observations were ignored” (Source: Nilsson, Lars ‘EU Exports and Uptake of Preferences: A First Analysis’ (2016) 50 *Journal of World Trade*, Issue 2, pp. 219–252).*

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

Partner country exports

The ‘preference utilisation rates’ for partner country exports to the EU are based on Eurostat statistics on EU28 imports from partner countries.

In order to make the analysis comparable from both sides, the same partner countries are used in the calculation of ‘preference utilisation rates’ for partner countries as in the calculation of ‘preference utilisation rates’ for the EU, even though the Eurostat data are available for all partner countries and all years. The findings based on the sample of 17 free trade agreements are likely representative for most of the EU’s free trade agreements since about 80 percent of the total value of the preferential trade, i.e. partner country exports to the EU, is

covered. The data on EU preferential imports from partner countries are complete for all years 2009–2013 for the agreements that were in force. In the cases of EU-Serbia, EU-South Korea and EU-Nicaragua, the free trade agreements had not been in force for five years in 2013 but data for all corresponding years are available.

In Eurostat, the preference regime presented in the database is the regime requested by the importer. Accordingly, the data are an approximation of the preference utilisation since information on whether the product effectively obtained the requested regime is not collected. However, *ad hoc* sample comparisons by member states has shown that the difference is not statistically significant and that the data on preference utilisation are representative of the reality (Source: European Commission ‘Subject: Publication of EU’s import by trade regime: Methodology.’ (2006), Note to the file, European Commission (TRADE/H3/SLG/D(2006))).

The data on the EU’s preferential imports used for the calculation of the ‘preference utilisation rates’ of partner countries include the unilateral preferential imports for developing countries under the EU’s ‘generalised scheme of preferences’ in a number of partner countries (Tunisia, Mexico, Morocco, Egypt, Algeria, Lebanon and Nicaragua) since it has been possible for free trade parties to use both preferential schemes, i.e. the developing country preferences and the free trade agreement preferences, during a transition period. At the moment of extraction of the data, it was not possible to distinguish between these preferential schemes in the Eurostat database. In the new Eurostat database template, however, it is possible to extract data for the two preferential schemes separately. In any case, a random sample comparison for a number of beneficiaries of both preferential systems indicates that the utilisation of the EU’s unilateral scheme of preference utilisation, the ‘generalised scheme of preferences’, only affects a marginal share of the total preference utilisation rate for the partner countries concerned. This is likely the case since the number of preference eligible products, as well as the preference margins, are much larger in the free trade agreements – and it is generally assumed that partner countries would use the most beneficial preferential scheme.

Data on inward and outward processing and data with “unknown” preferential regimes have not been included in the analysis.



Value of preferential exports (utilised preferences and non-utilised preferences)

EU exports

The data on the value of preferential imports from the EU to the partner countries that the European Commission obtained from the partner countries are of restricted use. Accordingly, Comtrade data on partner country imports have been used as an approximation for the calculation of the value of EU preferential exports. In this report, partner country imports data are used as an approximation for EU 'exports' to partner countries. The import data are based on the 'cost, insurance and freight' (CIF) value, i.e. not including the duties. Since it is not possible to calculate the preference utilisations rates based on only Comtrade data, the 'preference utilisation rates' at HS4-digit level provided by the European Commission have been matched with Comtrade data on imports at the same HS4-digit level for all partner countries.

The value of preference eligible imports at HS4-digit level has been calculated according to the following formula:

$$\text{VALCOVD} = \text{NOFTA} * \text{VALTOT} / \text{NOLINE}$$

Where:

VALTOT = Total value of imports

NOLINE = Total number of tariff lines included in the HS4 aggregate

NOFTA = Number of tariff items covered by the free trade agreement.

In cases where preferential tariff rates are missing, it is impossible to determine NOFTA and thus to calculate VALCOVD

The value of preference receiving imports at HS4-digit level was calculated according to the following formula:

$$\text{VALREC} = \text{UTR} * \text{VALCOVD}$$

Where:

VALCOVD = Value of preference eligible imports

UTR = Preference utilisation rate at HS4-digit level provided by the European Commission.

However, due to the fact that the European Commission data on 'preference utilisation rates' and the Comtrade external trade data adhere to different datasets, there is naturally a certain level of discrepancy that has to be considered in the analysis. On some occasions, the European Commission data on 'preference utilisation rates' at HS4-digit level and the Comtrade import data on HS4-digit level did not correspond. In each case where for non-zero imports value no corresponding preference utilisation was found in the European Commission's data, the partner countries' average 'preference utilisation rate' has been used as a proxy.

The import values obtained at HS4-digit level have finally been merged into HS Section level. In order to calculate the five-year average, the data for all available years were added together and thereafter divided by the number of years where data were available for each partner country.



Since the Comtrade data are based on USD, the value has been converted to EUR using the IMF exchange rate indicators, i.e. the average exchange rate 0.746 for the years 2009-2013.

Partner country exports

The value of preferential exports to the EU by partner countries is based on Eurostat import data. In this report, the EU import data are used as an approximation for partner country 'exports' to the EU. The import data are based on the 'cost, insurance and freight' (CIF) value, i.e. not including the duties. The data are available at all levels of disaggregation. For the purpose of the analysis of the value of preferential exports, data on HS4-digit level have been used and merged into aggregated numbers at HS Section level. In order to calculate the five-year average value, data for all years were merged and thereafter divided by five or the number of years the free trade agreements have been in force (in the cases of EU-Serbia, EU-South Korea and EU-Nicaragua).

Data on inward and outward processing and data with "unknown" preferential regimes have not been included in the analysis.

Value of preferential duties (preferential duty savings and preferential duty costs)

Partner country imports

The value of the preference margins where preferences are utilised, i.e. the preferential duty sav-

ings, and where preferences are non-utilised, i.e. the preferential duty costs, are calculated at HS4-digit level for each party of each free trade agreement. The calculations are based on the value of preferential imports where preferences are utilised, as well as not utilised, at HS4-digit level (see the method above) multiplied with the average, unweighted, preference margin at the same HS4-digit level. The values of the preference margin at HS4-digit level are thereafter merged at HS Section level. In order to calculate the five-year average, the data for all available years were added together and thereafter divided by the number of years where data were available for each partner country.

Since the data on partner country applied 'most favoured nation' tariffs and preferential tariffs were not complete for the period 2009-2013, some methodological assumptions were made. In the case of Lebanon, all data on 'most favoured nation' and preferential tariffs were missing for the years 2009-2013 but available for the year 2014. In the report, the 'most favoured nation' tariffs and preferential tariffs for 2014 were, accordingly, used as a substitution for the missing years. In the case of Tunisia, all preferential tariff rates were missing, something that made it impossible to calculate the value of preference eligible imports. In this case, the assumption was made that the value of preference eligible imports equals to the value of dutiable imports at HS4-digit level where data on preference utilisation were available. For the remaining imports at HS4-digit level the value of preference eligible imports was assumed to be zero.

Table B: Scheme on the availability of ‘most favoured nation’ tariffs and preferential tariffs for partner countries 2009-2013 and methods used

| Partner country | MFN tariffs | | | | | Preferential tariffs | | | | |
|------------------------|-------------|--------|--------|--------|--------|----------------------|--------|--------|--------|--------|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Iceland | | | x | x | x | | | x | x | x |
| Switzerland | | x | x | x | x | | x | x | x | x |
| Turkey | x | x | x | [2011] | x | x | x | x | [2011] | x |
| Tunisia | x | x | x | | | [-] | [-] | [-] | | |
| Mexico | x | x | x | x | | x | [2009] | [2009] | [2009] | |
| Morocco | | x | x | x | | | [2012] | [2012] | x | |
| Macedonia | x | | x | x | x | x | | x | x | [2012] |
| Chile | x | x | x | x | x | x | x | x | x | [2012] |
| Egypt | x | x | x | x | x | [2010] | x | x | x | x |
| Algeria | x | [2009] | [2009] | | [2014] | x | [2009] | [2009] | | [2014] |
| Albania | x | x | x | x | x | [2011] | [2011] | x | x | x |
| Lebanon | [2014] | [2014] | [2014] | [2014] | [2014] | [2014] | [2014] | [2014] | [2014] | [2014] |
| Bosnia and Hercegovina | x | x | x | x | | x | x | x | x | |
| Montenegro | | x | x | x | x | | x | x | x | x |
| Serbia | | x | x | [2011] | | | x | x | [2011] | |
| South Korea | | | x | x | x | | | [2014] | [2014] | [2014] |
| Nicaragua | | | | | x | | | | | [2014] |

Source: Elaborated by UNCTAD

Note: The years considered in the analysis are marked with an “x” in the table if information on tariffs (MFN or preferential) is available for the corresponding year. In the cases where data for the corresponding year is missing, the year of replacement is indicated in the table. For Tunisia, it was not possible to identify replacement data on preferential tariffs, which implies that the analysis on preferential tariffs for Tunisia is missing in the analysis.

The preference margins are calculated as the difference between the average, unweighted, applied ‘most favoured nation’ tariff and the average, unweighted, applied preferential tariff at HS4-digit level in the TRAINS database. In the calculations of the value on preference margins, specific tariffs and tariff rate quotas have in general not been considered; the only exception is Switzerland where *ad valorem* equivalents are used since all non-zero tariffs are specific. As a result, the values of preferential duty savings and preferential duty costs for mainly agricultural and fishery products (Sections 1 and 2) might be slightly overestimated in relation to the reality.

EU imports

The value of the preference margins where preferences are utilised, i.e. the preferential duty savings, and where preferences are non-utilised, i.e. the preferential duty costs, are calculated at HS4-digit level for each party of each free trade agreement. The calculations are based on the

value of preferential imports where preferences are utilised and not utilised at HS4-digit level (see the method above) multiplied with the average, unweighted, preference margin at the same HS4-digit level. The values of the preference margin at HS4-digit level are thereafter merged into HS Section level. In order to calculate the five-year average value, data for all years were merged and thereafter divided by five or the number of years the free trade agreements have been in force (in the cases of EU-Serbia, EU-South Korea and EU-Nicaragua).

The preference margins are calculated as the difference between the average, unweighted, applied ‘most favoured nation’ tariff and the average, unweighted, applied preferential tariff at HS4-digit level in the TRAINS database. In the calculations of the value on preference margins, specific tariffs and tariff rate quotas have not been considered. As a result, the values of preferential duty savings and preferential duty costs for mainly agricultural and fishery products (Sections 1 and 2) might be slightly overestimated.

Annex 2: Preference utilisation in the EU's free trade agreements over time

The findings on preference utilisation in the EU's free trade agreements in this report are presented at a five-year average level (2009-2013). However, it is also important to understand the development over time for the parties of the free trade agreements. This annex provides only a brief overview over time on some of the indicators used in this report and to a certain degree from an EU perspective. Since the data on the EU's 'preference utilisation rates' are not available for all years, the years 2009 and 2013 in the analysis are used as approximations for the first and last year where data are available for each free trade agreement (see Table A in Annex 1 for more detailed information).

Figures 2A-2D shows that the 'preference utilisation rate' of EU exporters at total level has increased by eight percentage points between the years 2009 and 2013. The 'preference utilisation rate' of partner country exporters at total level has increased by four percentage points over the same time period.

Figures 2A-2B show the development of the 'preference utilisation rates' of EU exporters and partner country exporters in relation to each other. It is apparent that the difference in the 'preference utilisation rates' has decreased from the negative 23 percentage points in 2009 to the negative 19 percentage points in 2013, i.e. a decrease by four percentage points.

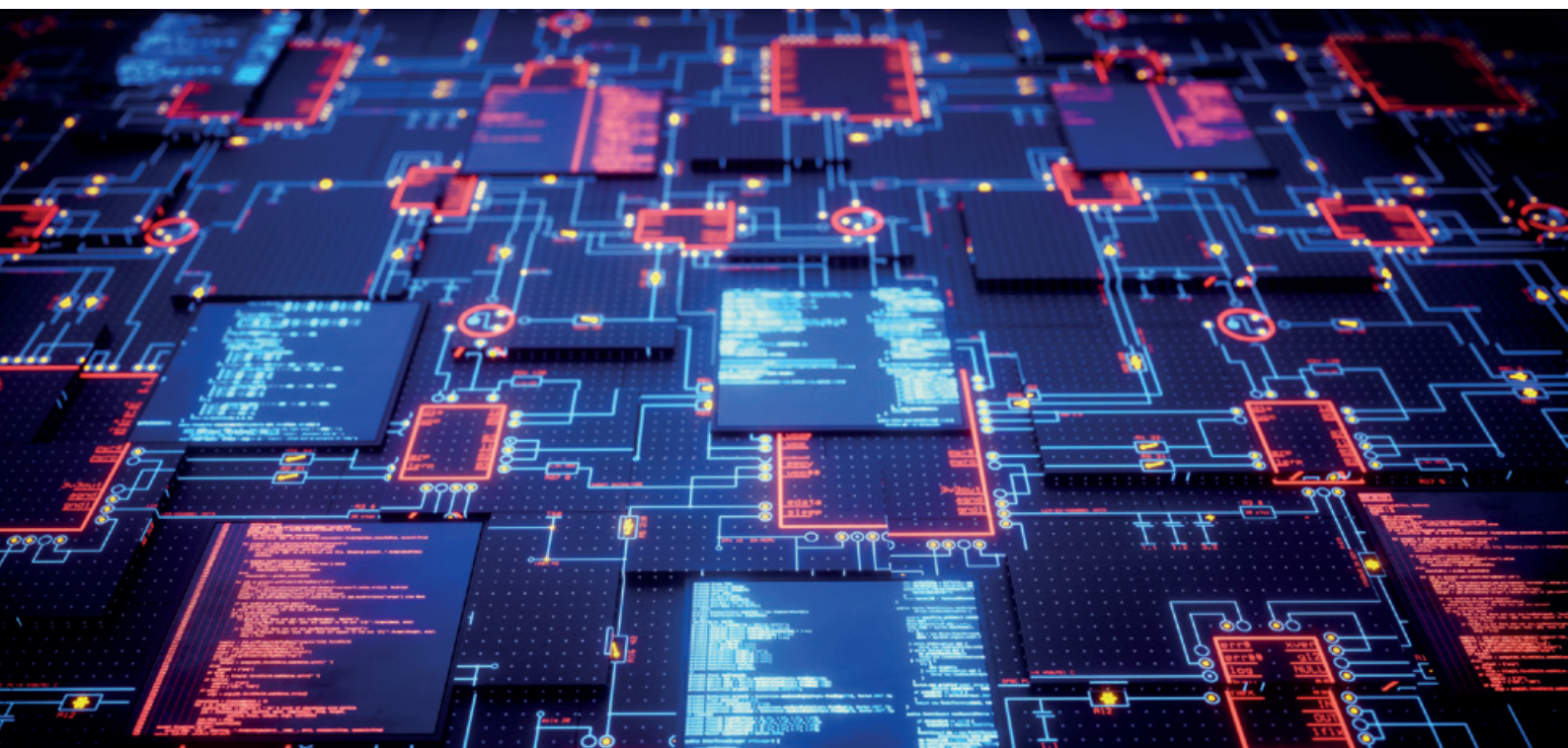
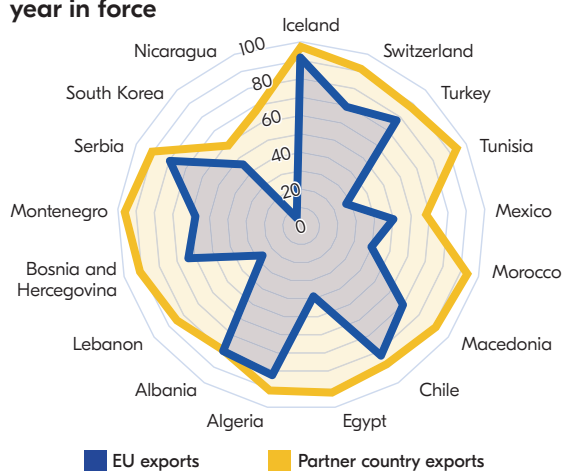


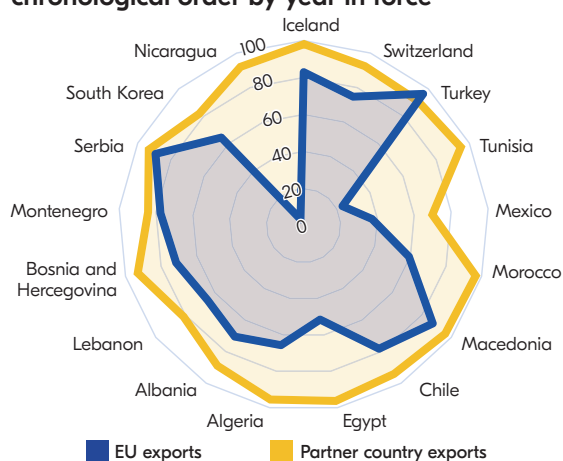
Figure 2A: Preference utilisation rates in the EU's free trade agreements in 2009, in percent, chronological order by year in force



Source: Based on European Commission and Eurostat data

| Free Trade Agreement | EU exports (%) | Partner country exports (%) | Difference (p.p.) |
|------------------------|----------------|-----------------------------|-------------------|
| Iceland | 91 | 97 | -6 |
| Switzerland | 70 | 92 | -22 |
| Turkey | 78 | 89 | -11 |
| Tunisia | 28 | 95 | -67 |
| Mexico | 50 | 68 | -18 |
| Morocco | 40 | 94 | -54 |
| Macedonia | 70 | 91 | -21 |
| Chile | 83 | 88 | -5 |
| Egypt | 38 | 92 | -54 |
| Algeria | 82 | 90 | -8 |
| Albania | 79 | 79 | -0 |
| Lebanon | 26 | 84 | -58 |
| Bosnia and Herzegovina | 63 | 91 | -28 |
| Montenegro | 57 | 96 | -39 |
| Serbia | 79 | 90 | -11 |
| South Korea | 46 | 59 | -13 |
| Nicaragua | 4 | 67 | -63 |
| TOTAL | 64 | 87 | -23 |

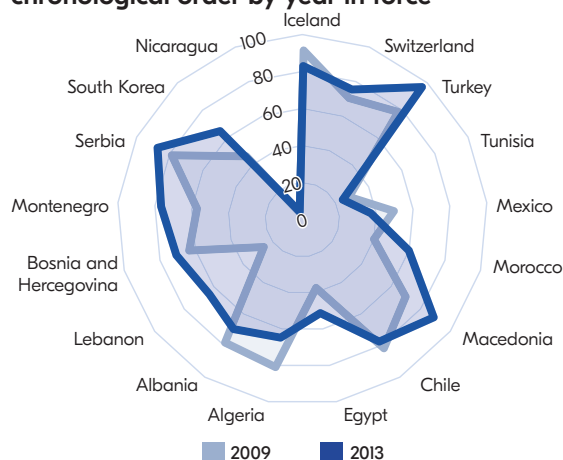
Figure 2B: Preference utilisation rates in the EU's free trade agreements in 2013, in percent, chronological order by year in force



Source: Based on European Commission and Eurostat data

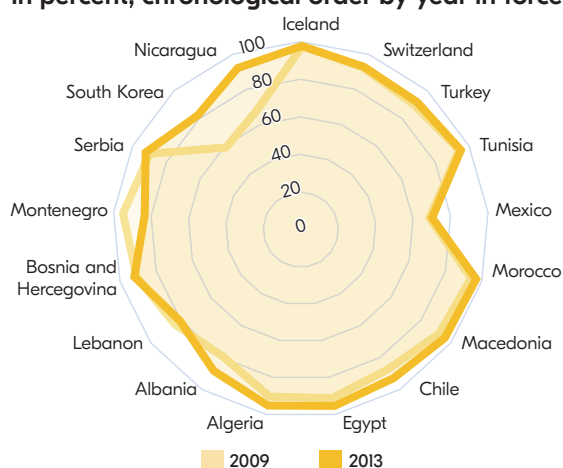
| Free Trade Agreement | EU exports (%) | Partner country exports (%) | Difference (p.p.) |
|------------------------|----------------|-----------------------------|-------------------|
| Iceland | 83 | 98 | -15 |
| Switzerland | 75 | 93 | -18 |
| Turkey | 96 | 92 | 4 |
| Tunisia | 24 | 95 | -71 |
| Mexico | 37 | 70 | -33 |
| Morocco | 59 | 97 | -38 |
| Macedonia | 88 | 95 | -7 |
| Chile | 78 | 93 | -15 |
| Egypt | 51 | 96 | -45 |
| Algeria | 65 | 95 | -30 |
| Albania | 70 | 88 | -18 |
| Lebanon | 65 | 81 | -16 |
| Bosnia and Herzegovina | 71 | 93 | -22 |
| Montenegro | 77 | 84 | -7 |
| Serbia | 88 | 92 | -4 |
| South Korea | 65 | 82 | -17 |
| Nicaragua | 4 | 92 | -88 |
| TOTAL | 72 | 91 | -19 |

Figure 2C: Preference utilisation rates in the EU's free trade agreements, EU 2009-2013, in percent, chronological order by year in force



Source: Based on European Commission data

Figure 2D: Preference utilisation rates in the EU's free trade agreements, partner countries 2009-2013, in percent, chronological order by year in force



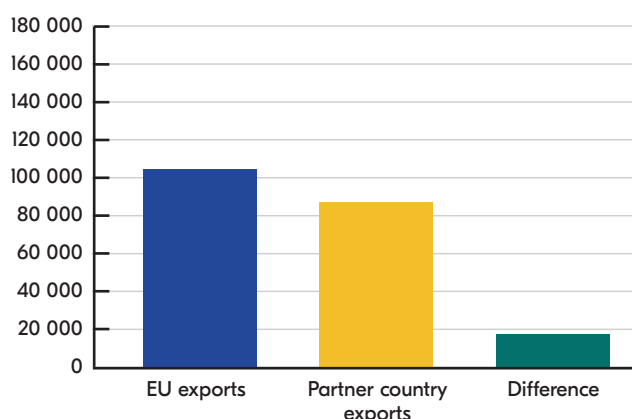
Source: Based on Eurostat data.

Figures 2C-2D show the individual development of EU exporters and partner country exporters. The total 'preference utilisation rate' of EU exporters has increased to the highest degree. This is mainly due to the increase in the 'preference utilisation rates' in EU exports to Lebanon, Montenegro, South Korea, Morocco, the former Yugoslav Republic of Macedonia and Turkey. The total 'preference utilisation rate' of

EU exporters has decreased most in Algeria and Mexico. The total 'preference utilisation rate' of partner country exporters has increased to the highest degree in Nicaragua and South Korea and decreased most in Montenegro.

A similar but opposite development over time would be found in the 'preference savings rates' with regard to EU and partner country importers (which, accordingly, are not included in this annex).

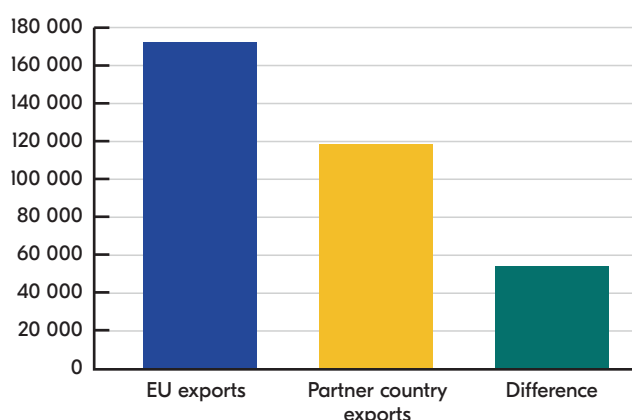
Figure 2E: Value of utilised preferences in the EU's free trade agreements in 2009, EUR millions



Source: Based on European Commission, Comtrade and Eurostat data

| Free Trade Agreement (EUR) millions | EU exports | Partner country exports | Difference |
|-------------------------------------|----------------|-------------------------|---------------|
| Iceland | 337 | 1 865 | -1 528 |
| Switzerland | 39 885 | 30 127 | 9 758 |
| Turkey | 21 962 | 27 912 | -5 950 |
| Tunisia | 1 934 | 5 209 | -3 274 |
| Mexico | 7 272 | 2 557 | 4 714 |
| Morocco | 3 372 | 5 163 | -1 791 |
| Macedonia | 662 | 494 | 168 |
| Chile | 3 521 | 2 212 | 1 309 |
| Egypt | 3 289 | 2 411 | 878 |
| Algeria | 3 346 | 1 005 | 2 342 |
| Albania | 816 | 242 | 575 |
| Lebanon | 927 | 97 | 830 |
| Bosnia and Hercegovina | 1 669 | 880 | 789 |
| Montenegro | 317 | 101 | 216 |
| Serbia | 4 151 | 1 694 | 2 457 |
| South Korea | 10 940 | 5 070 | 5 870 |
| Nicaragua | 0 | 50 | -50 |
| TOTAL | 104 401 | 87 087 | 17 314 |

Figure 2F: Value of utilised preferences in the EU's free trade agreements in 2013, EUR millions

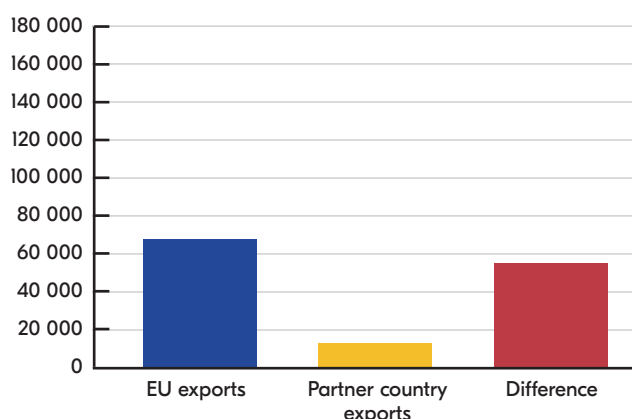


Source: Based on European Commission, Comtrade and Eurostat data

| Free Trade Agreement (EUR) millions | EU exports | Partner country exports | Difference |
|-------------------------------------|----------------|-------------------------|---------------|
| Iceland | 339 | 1 407 | -1 067 |
| Switzerland | 51 811 | 35 370 | 16 441 |
| Turkey | 44 646 | 37 652 | 6 994 |
| Tunisia | 1 876 | 5 353 | -3 477 |
| Mexico | 4 859 | 3 573 | 1 286 |
| Morocco | 8 894 | 7 354 | 1 540 |
| Macedonia | 1 749 | 1 104 | 646 |
| Chile | 6 058 | 2 523 | 3 534 |
| Egypt | 6 531 | 3 333 | 3 198 |
| Algeria | 10 807 | 2 151 | 8 655 |
| Albania | 718 | 395 | 323 |
| Lebanon | 3 202 | 133 | 3 070 |
| Bosnia and Hercegovina | 2 225 | 1 495 | 730 |
| Montenegro | 355 | 112 | 244 |
| Serbia | 5 902 | 3 550 | 2 352 |
| South Korea | 22 252 | 12 746 | 9 506 |
| Nicaragua | 2 | 125 | -123 |
| TOTAL | 172 226 | 118 374 | 53 852 |

The value of utilised preferences has increased by 39 percent in the EU and by 36 percent in partner countries. In the EU, the increase was mainly due to increased exports to Turkey, Switzerland, South Korea, Algeria and Morocco. The highest decrease was found in exports to Mexico. In partner countries the increase was mainly due to increased exports to the EU by Turkey, Switzerland and South Korea. The highest decrease in exports to the EU was found in Iceland.

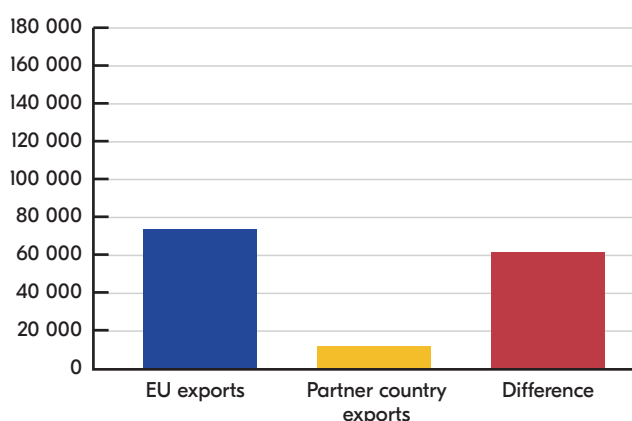
Figure 2G: Value of non-utilised preferences in the EU's free trade agreements in 2009, EUR millions



Source: Based on European Commission, Comtrade and Eurostat data

| Free Trade Agreement (EUR) millions | EU exports | Partner country exports | Difference |
|-------------------------------------|---------------|-------------------------|---------------|
| Iceland | 35 | 52 | -17 |
| Switzerland | 15 220 | 2 778 | 12 442 |
| Turkey | 5 270 | 3 536 | 1 733 |
| Tunisia | 4 625 | 293 | 4 332 |
| Mexico | 7 678 | 1 206 | 6 472 |
| Morocco | 8 844 | 328 | 8 515 |
| Macedonia | 358 | 47 | 311 |
| Chile | 729 | 314 | 415 |
| Egypt | 4 510 | 221 | 4 289 |
| Algeria | 720 | 108 | 612 |
| Albania | 247 | 63 | 184 |
| Lebanon | 2 463 | 18 | 2 445 |
| Bosnia and Hercegovina | 619 | 92 | 527 |
| Montenegro | 257 | 4 | 252 |
| Serbia | 1 129 | 179 | 950 |
| South Korea | 15 013 | 3 512 | 11 501 |
| Nicaragua | 0 | 25 | -25 |
| TOTAL | 67 717 | 12 778 | 54 939 |

Figure 2H: Value of non-utilised preferences in the EU's free trade agreements in 2013, EUR millions

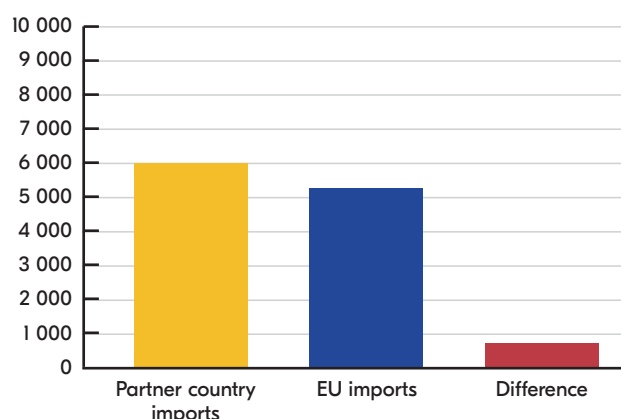


Source: Based on European Commission, Comtrade and Eurostat data

| Free Trade Agreement (EUR) millions | EU exports | Partner country exports | Difference |
|-------------------------------------|---------------|-------------------------|---------------|
| Iceland | 70 | 32 | 38 |
| Switzerland | 27 316 | 2 833 | 24 483 |
| Turkey | 1 722 | 3 423 | -1 702 |
| Tunisia | 5 615 | 298 | 5 318 |
| Mexico | 4 826 | 1 549 | 3 278 |
| Morocco | 6 193 | 235 | 5 957 |
| Macedonia | 245 | 52 | 193 |
| Chile | 1 739 | 192 | 1 546 |
| Egypt | 5 253 | 155 | 5 099 |
| Algeria | 5 935 | 114 | 5 821 |
| Albania | 250 | 52 | 198 |
| Lebanon | 1 647 | 31 | 1 616 |
| Bosnia and Hercegovina | 385 | 118 | 267 |
| Montenegro | 251 | 21 | 230 |
| Serbia | 1 083 | 298 | 785 |
| South Korea | 11 168 | 2 720 | 8 448 |
| Nicaragua | 53 | 11 | 43 |
| TOTAL | 73 753 | 12 134 | 61 619 |

The value of non-utilised preferences has increased by 8 percent in the EU and decreased by 5 percent in partner countries. In the EU, the increase was mainly due to increased exports to Switzerland and Algeria and the decrease mainly due to decreased exports to South Korea, Turkey, Mexico and Morocco. In the partner countries the increase in exports to the EU was mainly due to Mexico, and the decrease in exports to the EU was mainly due to South Korea.

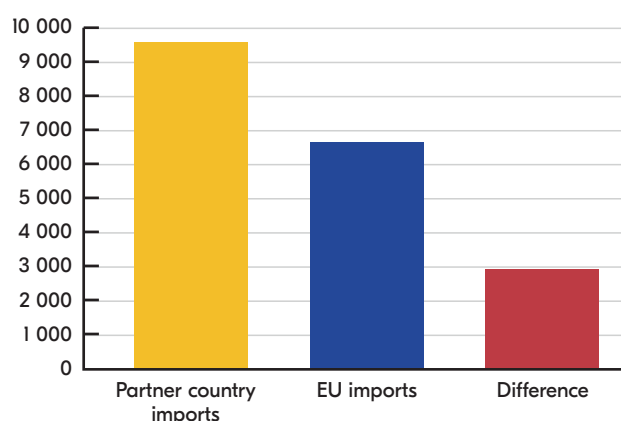
Figure 2l: Value of preferential duty savings in the EU's free trade agreements in 2009, EUR millions



Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

| Free Trade Agreement (EUR) millions | Partner country imports | EU imports | Difference |
|-------------------------------------|-------------------------|--------------|------------|
| Iceland | 28 | 130 | -103 |
| Switzerland | 1 618 | 1 050 | 568 |
| Turkey | 1 071 | 2 206 | -1 135 |
| Tunisia | [...] | 376 | [...] |
| Mexico | 917 | 192 | 725 |
| Morocco | 458 | 440 | 18 |
| Macedonia | 42 | 37 | 6 |
| Chile | 185 | 294 | -109 |
| Egypt | 117 | 154 | -38 |
| Algeria | 423 | 19 | 405 |
| Albania | 65 | 20 | 44 |
| Lebanon | 41 | 5 | 35 |
| Bosnia and Herzegovina | 106 | 43 | 64 |
| Montenegro | 13 | 6 | 8 |
| Serbia | 143 | 128 | 15 |
| South Korea | 775 | 166 | 609 |
| Nicaragua | 0 | 3 | -3 |
| TOTAL | 6 002 | 5 269 | 733 |

Figure 2j: Value of preferential duty savings in the EU's free trade agreements in 2013, EUR millions

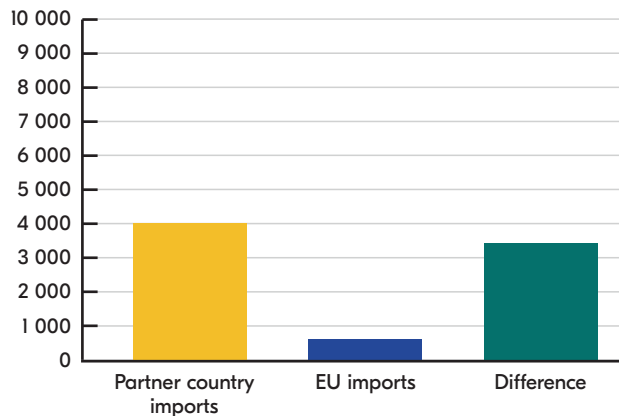


Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

| Free Trade Agreement (EUR) millions | Partner country imports | EU imports | Difference |
|-------------------------------------|-------------------------|--------------|--------------|
| Iceland | 27 | 114 | -87 |
| Switzerland | 2 052 | 1 332 | 720 |
| Turkey | 2 243 | 2 903 | -661 |
| Tunisia | [...] | 365 | [...] |
| Mexico | 477 | 252 | 224 |
| Morocco | 820 | 130 | 690 |
| Macedonia | 166 | 70 | 97 |
| Chile | 303 | 351 | -48 |
| Egypt | 282 | 216 | 66 |
| Algeria | 1 055 | 35 | 1 019 |
| Albania | 50 | 30 | 19 |
| Lebanon | 110 | 7 | 103 |
| Bosnia and Herzegovina | 158 | 76 | 83 |
| Montenegro | 20 | 7 | 13 |
| Serbia | 254 | 250 | 4 |
| South Korea | 1 589 | 523 | 1 065 |
| Nicaragua | 0 | 7 | -7 |
| TOTAL | 9 604 | 6 668 | 2 936 |

The value of preferential duty savings has increased by 38 percent in partner countries and by 21 percent in the EU. In partner countries, the increase was mainly due to Turkey, South Korea and Algeria, and the decrease mainly due to Mexico. In the EU the increase was mainly due to Turkey, South Korea and Switzerland, and the decrease mainly due to Mexico.

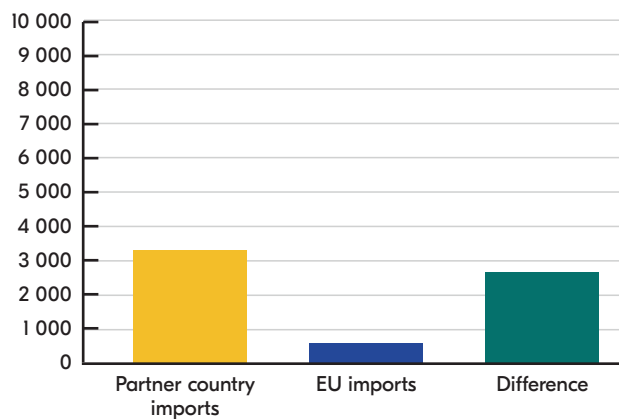
Figure 2K: Value of preferential duty costs in the EU's free trade agreements in 2009, EUR millions



Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

| Free Trade Agreement (EUR) millions | Partner country imports | EU imports | Difference |
|-------------------------------------|-------------------------|------------|--------------|
| Iceland | 3 | 3 | -0 |
| Switzerland | 598 | 66 | 532 |
| Turkey | 230 | 264 | -34 |
| Tunisia | [...] | 17 | [...] |
| Mexico | 532 | 39 | 493 |
| Morocco | 1 141 | 34 | 1 107 |
| Macedonia | 30 | 3 | 27 |
| Chile | 38 | 21 | 17 |
| Egypt | 150 | 9 | 140 |
| Algeria | 80 | 3 | 77 |
| Albania | 23 | 5 | 18 |
| Lebanon | 73 | 1 | 72 |
| Bosnia and Hercegovina | 36 | 4 | 32 |
| Montenegro | 8 | 0 | 8 |
| Serbia | 41 | 10 | 31 |
| South Korea | 1 031 | 112 | 919 |
| Nicaragua | 0 | 0 | -0 |
| TOTAL | 4 014 | 591 | 3 423 |

Figure 2L: Value of preferential duty costs in the EU's free trade agreements in 2013, EUR millions



Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

| Free Trade Agreement (EUR) millions | Partner country imports | EU imports | Difference |
|-------------------------------------|-------------------------|------------|--------------|
| Iceland | 5 | 2 | 3 |
| Switzerland | 433 | 125 | 308 |
| Turkey | 71 | 260 | -189 |
| Tunisia | [...] | 14 | [...] |
| Mexico | 458 | 54 | 404 |
| Morocco | 641 | 3 | 638 |
| Macedonia | 24 | 3 | 21 |
| Chile | 95 | 7 | 88 |
| Egypt | 246 | 8 | 238 |
| Algeria | 385 | 2 | 383 |
| Albania | 19 | 4 | 15 |
| Lebanon | 48 | 1 | 46 |
| Bosnia and Hercegovina | 21 | 5 | 16 |
| Montenegro | 8 | 2 | 7 |
| Serbia | 42 | 18 | 24 |
| South Korea | 791 | 102 | 689 |
| Nicaragua | 1 | 1 | 1 |
| TOTAL | 3 290 | 612 | 2 678 |

The value of preferential duty costs has decreased by 22 percent in partner countries and increased by 3 percent in the EU. In partner countries, the increase was mainly due to Algeria, and the decrease mainly due to Morocco, South Korea, Turkey and Switzerland. In the EU the increase was mainly due to Switzerland, and the decrease mainly due to Morocco, Chile and South Korea.

