

The EFTA FTA Monitor

WTO WEBINAR:
"WHAT DRIVES THE UTILIZATION OF TRADE PREFERENCES?"

7 April 2022



The European Free Trade Association

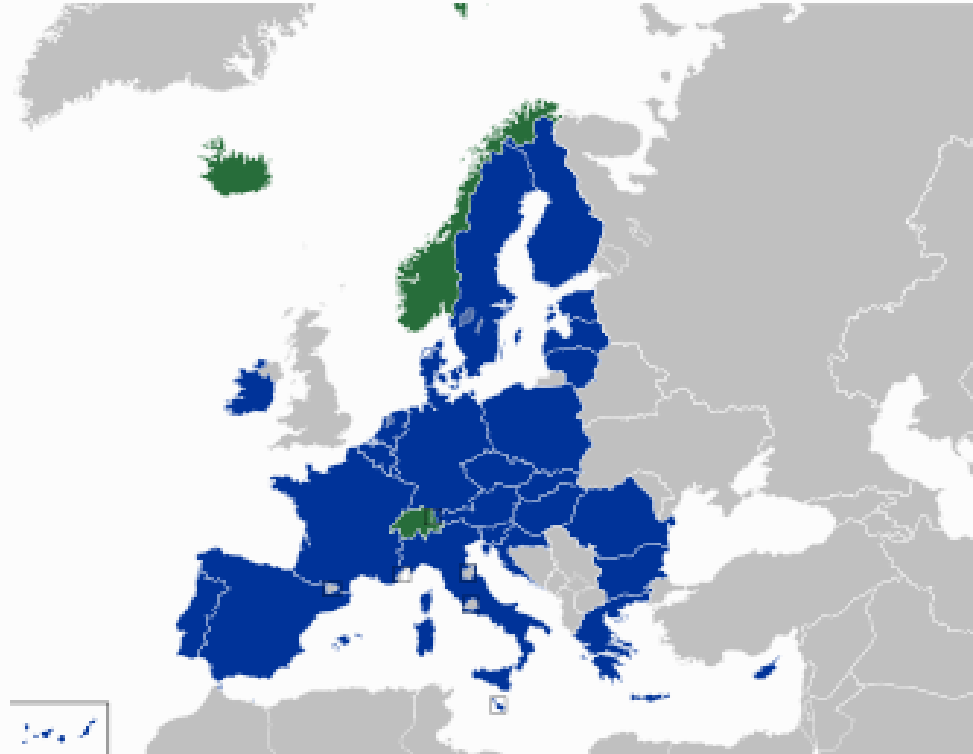
Member States

Iceland

Liechtenstein

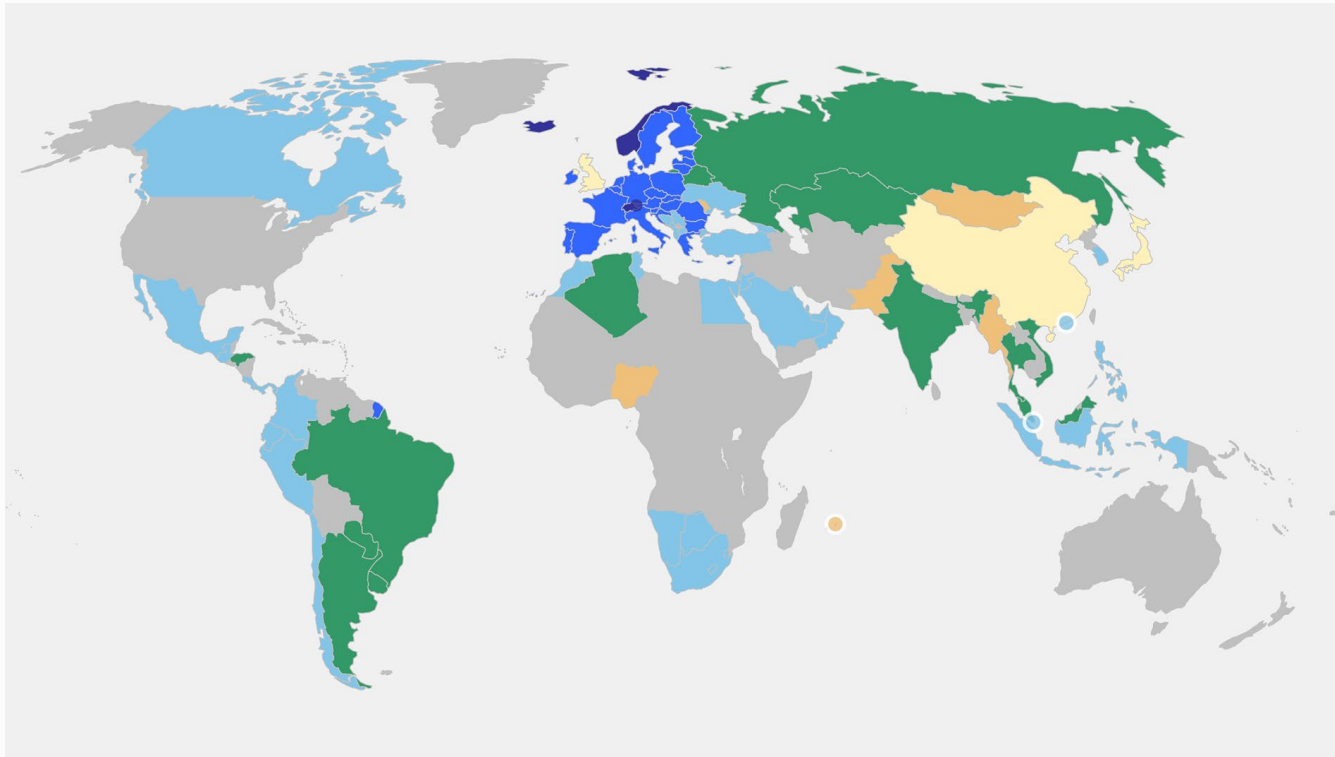
Norway

Switzerland



Free Trade Agreements

29 Free Trade Agreements (FTAs), with a total of 40 partner countries and territories



The FTA Monitor

- > A quantitative analysis of the **effective use** of Free Trade Agreements (FTAs).
 - > Designed to answer **three key questions**:
 - To what extent do companies make use of FTAs and what is the amount of tariff savings achieved as a result thereof?
 - Does the utilisation rate differ between imports and exports?
 - How much does the utilisation rate vary across partners, over time, across sectors and product groups?

- > Covers **all active agreements** on the import side and 14 on the export side for the period 2018-2020.

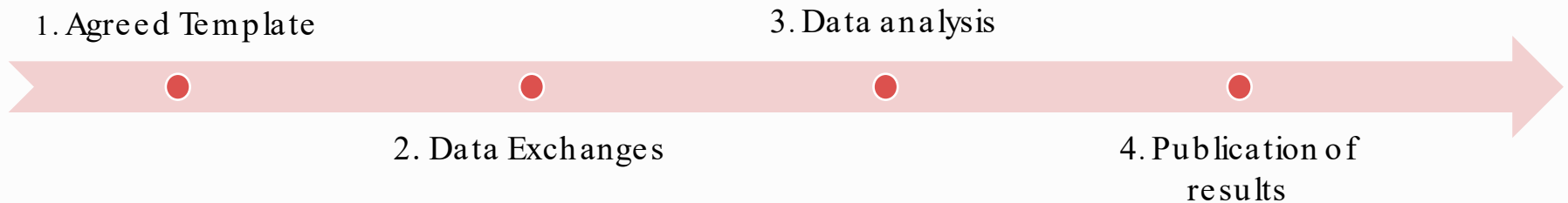


How we did it

> Based on a Swiss Study from the Swiss Secretariat for Economic Affairs (SECO) and the University of St.Gallen.

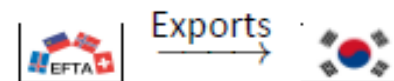
> Simple formula: Preference utilisation rate (%) =
$$\frac{\text{Trade value of preferences used}}{\text{Trade value of preferences that could be used}}$$

> Time line: August 2021-April 2022



Output I/III*

EFTA: Exports to the Republic of Korea 2020



Total exports: 4.32 bln. USD

Date of entry into force of the FTA: 01.09.2006

Duty-free exports under MFN or the FTA: 3.13 bln. USD, 72.6% of total exports

Preference utilisation rate: 66.9% (2018), 66.6% (2019), 68.8% (2020)

Exports without gold: 4.26 bln. USD

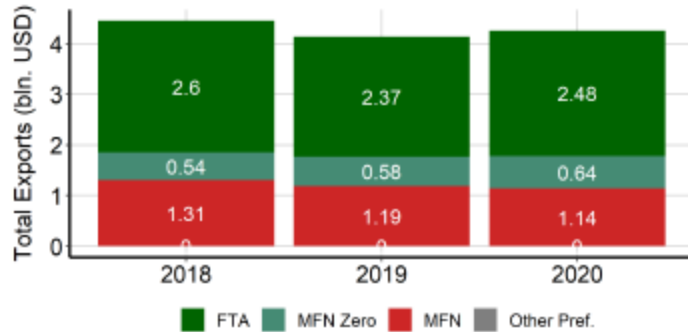
Analysis of exports without unwrought gold (7108.12). Preferences within TRQs, variable tariffs and ex-outs within tariff lines have not been considered.
Confidential trade for Norway is excluded from the tables.

Disclaimer: The output and results shown hereafter are of a preliminary nature and subject to the publication of the FTA Monitor on the EFTA website.

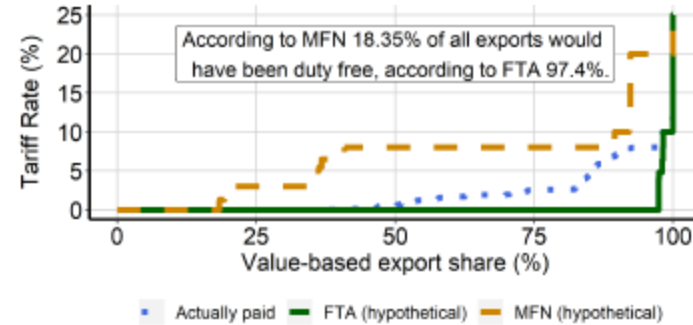


Output II/III

Decomposition of exports over the past years by trade regime.
2020: FTA (58.2%), MFN zero (15%), MFN (26.8%), other pref. (0%).



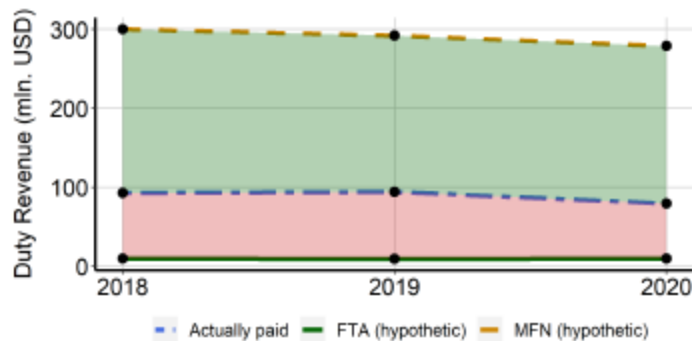
Hypothetical customs duties on products exported in 2020
(excluding non-traded products).



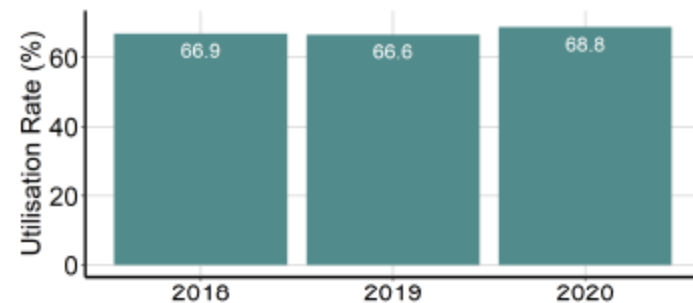
Hypothetical duty revenue according to MFN or FTA.

Green: achieved tariff savings (2020: 199'456'750 USD, savings rate: 74.1%).

Red: Non-achieved tariff savings (2020: 69'863'330 USD).



Comparison of aggregated utilisation rates over the past years.



Output III/III

	Product group	HS code link	Exports					Utilisation Rate (%)	Tariff savings	
			Total	MFN	MFN-zero	FTA	other		achieved	non-achieved
			(in millions of USD)					(in thousands of USD)		
Total			4'256.30	1'140.37	637.91	2'478.02	0.00	68.76	199'456.75	69'863.33
Top-10 product groups with highest exp. values	Machines	84	718.63	373.98	41.98	302.67	0.00	44.40	23'829.72	29'868.57
	Watches	91	678.13	143.39	0.00	534.74	0.00	78.90	42'719.03	11'451.04
	Pharmaceuticals	30	498.84	34.46	289.81	174.57	0.00	83.20	13'667.70	2'756.66
	Fish	03	423.51	90.69	0.00	332.82	0.00	95.60	64'726.53	1'542.07
	Mineral Fuels	27	410.77	199.71	31.60	179.45	0.00	47.30	5'390.70	6'028.36
	Precision Instruments	90	378.58	66.62	158.76	153.19	0.00	48.60	3'565.30	4'302.69
	Jewelry	71	238.45	15.18	0.05	223.22	0.00	93.60	9'729.15	1'204.85
	Specialized Machines	85	216.98	53.40	57.97	105.61	0.00	58.70	5'591.44	3'996.02
	Org. Chemicals	29	118.67	54.50	2.89	61.28	0.00	52.50	3'169.72	1'837.00
	Coffee and Tea	09	91.22	2.39	0.00	88.83	0.00	97.40	7'106.71	191.03
Top-10 products with highest non-ach. tariff savings	Machines	8479.89	99.97	87.15	0.00	12.82	0.00	12.83	1'025.79	6'971.93
	Mineral Fuels	2709.00	377.99	198.71	0.00	179.28	0.00	47.43	5'378.35	5'961.45
	Machines	8481.80	127.78	69.65	0.00	58.14	0.00	45.50	4'650.88	5'571.90
	Watches	9102.21	297.85	52.89	0.00	244.96	0.00	82.24	19'596.94	4'231.37
	Machines	8414.80	65.73	35.66	0.00	30.07	0.00	45.74	2'405.35	2'853.10
	Pharmaceuticals	3004.90	170.98	29.92	0.00	141.06	0.00	82.50	11'284.70	2'393.89
	Watches	9102.11	127.52	29.52	0.00	98.00	0.00	76.85	7'839.72	2'361.77
	Machines	8414.90	28.83	22.42	0.00	6.41	0.00	22.22	512.46	1'793.58
	Machines	8479.90	22.73	20.58	0.00	2.15	0.00	9.47	172.30	1'646.41
	Machines	8413.30	20.03	19.63	0.00	0.39	0.00	1.97	31.56	1'570.65



Determinants of utilisation rates

EFTA FTA Monitor

- > No clear-cut relationship between preference utilisation rate (PUR) and preferential margin.
- > Positive correlation between PUR and total savings potential linked to a FTA (in line with Lukaszuk and Legge 2019).
- > Heterogeneity across and within regions and product groups.

Recent quantitative research (selection)

- > No SME penalty (Lukaszuk and Legge 2021).
- > Learning by doing and importance of transaction size (Kasteng et al. 2021 & 2022, Krishna et al. 2021).
- > Need for more in-depth analyses (quantitative and/or qualitative) to pave the way for improvement measures.



Takeaways

Process

- > Data availability is the main bottleneck for PUR analysis.
- > Positive collaboration/response rate from partner countries.
- > Both sides can benefit from data exchanges.
- > Support from academia highly beneficial especially for up-front analysis.

Output

- > Overall good use of preferences, but variability among countries/product groups.
- > Some data limitations do not yet allow for a full picture (e.g. TRQs).
- > Continued exchanges with partner countries and business sector key to understand the use/non-use of trade agreements.
- > Analysis of FTA preferences provides insights into the use of other preferential arrangements.



Thank you for your attention!

bha@efta.int; swu@efta.int



References and additional sources

- > Kasteng, J., Kokko, A. & Tingvall, P. (2021). Who Uses the EU's Free Trade Agreements? A Transaction-Level Analysis of the EU-South Korea FTA. *World Trade Review*, 21(1), 93-108.
- > Kasteng, J., Norell, N. & Tingvall, P. (2022). Learning by Using Free Trade Agreements . A Firm and Transaction-Level Aanalysis of the EU–South Korea FTA. National Board of Trade Sweden. Available at:
<https://www.kommerskollegium.se/globalassets/publikationer/rapporter/2022/learning-by-using-free-trade-agreements-a-firm-and-transaction-level-analysis.pdf> (last consulted: 29 March 2022).
- > Krishna, K., Salamanca, C., Suzuki, Y. & Martincus, C. V. (2021). Learning to Use Trade Agreements. National Bureau of Economic Research Working Paper Series, No. 29319.
- > Lukaszuk, P. & Legge, S. (2019). Which Factors Determine the Utilization of Preferential Tariff Rates? Leibniz Information Centre for Economics (ZBW). Hamburg, Germany.
- > Lukaszuk, P. & Legge, S. (2021). Determinanten der Nutzung von Freihandelsabkommen. Weitere Auswertungen im Auftrag des SECO. Available only in German at:
https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/Freehandelsabkommen/nutzung_freihandelsabkommen.html (last consulted: 29 March 2022).
- > State Secretariat for Economic Affairs (SECO) (2020). Analysis on the Utilization of Free Trade Agreements. FTAMonitor 2019. Available at: Same link as Lukaszuk & Legge (2021)(last consulted: 29 March 2022).

