BELGIAN EXPORTERS AND FREE TRADE AGREEMENTS

A GOOD MATCH ?

Belgian Foreign Trade Agency

INTRODUCTION

A GOOD MATCH?

Belgium is one of the most open countries in the world. Its economy relies for an important part on international trade. Despite a relatively small population of 11 million inhabitants, the country was in 2019 the 13th largest exporter and the 14th largest importer of goods worldwide. Both combined have a value of 165% of the Belgian GDP.

In order to thrive, Belgian companies rely on a rule-based trading system and multilateral cooperation. Free Trade Agreements (FTAs) are thus a perfect tool for Belgian companies to improve their international trade. Therefore, one would assume that Belgian exporters and FTAs are a good match. This paper aims to find out whether this is indeed the case by investigating to what extent, and why Belgian exporters (do not) use the Free Trade Agreements.

Throughout this paper, the focus lies on the Belgian companies. Although the actual benefit of the Free Trade Agreement is for the importer through duty savings, the Belgian exporter has to take the necessary steps to prove that the products are eligible for preferential trade. This may cause a competitive advantage for the exporter vis-à-vis competitors who are not using the FTA or who do not have an FTA in place.

In total, 20 findings are presented in this paper. The key takeaways are presented at the end of each part, including policy suggestions for competent authorities or stakeholders, such as FIT, AWEX, hub.brussels and FPS Foreign Affairs. They are the institutional partners who ordered this publication and who kindly contributed to it by sending out a survey.

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This paper consists of 2 parts. In the first part, we will try to assess whether the Belgian exporters are making the most out of the opportunities provided by the FTAs. This is done by analysing an experimental dataset, provided by the European Commission, which covers the use of preferences of EU exports in 2019 for 30 importing partner countries. Together these countries represent 20% of the Belgian non-EU export. In the second part, we will try to find the motives of Belgian exporters (not) to use the FTAs for 5 selected countries, by analysing a survey to which 372 Belgian exporters responded.

Part 1: hypothesis

For part 1, we anticipated that Belgian exporting companies would use the FTAs to a fairly high extent, considering the importance of international trade for the Belgian economy. We assumed that most Potential Duty Savings (PDS) and most Foregone Duty Savings (FDS) would be found in countries and sectors with the highest value in bilateral trade.

Also, we expected to identify several combinations of an importing country (for example South Korea) and exporting sector (for example 'transport equipment') with exceptionally high PDS and FDS. We would then focus on those combinations for targeted policy recommendations. The discussion was open whether combinations with high FDS meant that Belgian exporters were underusing the FTAs compared to the EU-27 peers, or whether the FTAs were too complex and demanding.

Part 1: findings

This paper confirms that Belgian companies are using the FTAs relatively well with a Preference Utilisation Rate of 74% and a Duty Savings Rate (DSR) of 77%, which is very similar to the EU-27 average (75% and 77% respectively). The value of bilateral trade turns out to be a good predictor for the value of Potential Duty savings and Foregone Duty Savings on country level indeed, with Switzerland as exception to the rule. However, the paper finds that the South Korean and certainly Japanese FTA are underused based on criteria such as low DSR, absolute value of FDS and/or negative comparison with the utilisation by the EU-27. On sectoral level, 'chemical products', by far the most important Belgian export sector, have most PDS and most FDS. This is in line with the expectations. But the sector of 'foodstuffs' is a remarkable winner of the FTAs based on PDS, while the sector of 'live animals, animal products' has an unexpected large amount of FDS.

We found 31 combinations with exceptionally high PDS and 26 combinations with exceptionally high FDS. In the case of the latter, it mostly seems Belgian exporters are underusing the FTA compared to the EU-27 countries, although in some cases the FTA may lack clarity or could be too demanding.

Part 1: further research and actions

The findings of part 1 can be seen as a first introduction which may stimulate further research and policy actions. Those include digging deeper in the FTAs with South Korea and Japan and investigating with their authorities how we can improve the current utilisation of the FTAs.

Further research may also be focused on the Belgian exporters of 'live animals, animal products', to find out how they can be helped to use the FTAs to a higher extent. Finally, for each of the 26 combinations with high Foregone Duty Savings, a more detailed study could be made to find out exactly in what subsections the losses are situated and what can be done to remedy this.

Part 2: hypothesis

For part 2, the paper analyses the results of a survey with 372 respondents that export to 5 selected countries: Egypt, Israel, Morocco, South Africa and Mexico. The assumption could be made that the utilisation of FTAs is import-driven, because the importer has the direct benefit. The relatively high PUR and DSR seen in part 1 could suggest that companies using the FTAs consider these agreements as important in their export strategy and therefore actively use them in selling propositions. It was anticipated that proving the Rules of Origin was a difficult task, and certainly for SMEs.

In the assumption that all companies act on rational decision-making principles, and that those include avoiding unnecessary tariffs, all companies which are in the capacity to use FTAs would do so. Not using them could therefore, according to the hypothesis, be due to a lack of information and too complex procedures for obtaining the Rules of Origin.

We assumed that a part of the companies, mainly SMEs, would ask assistance of shipping agents or other facilitating companies to help with the export procedures. Like direct exporters, we would expect them to follow the rational decision-making principles to use the FTA through their agents.

Part 2: findings

Out of the 372 companies, 80 stated to use the FTAs. It turned out that the majority of those 80 companies using the FTA do so to improve their competitiveness, rather than because it is requested by their clients. The importance of the FTA for the exporting companies is confirmed and, in some cases, the FTAs turn out to be even more decisive than anticipated. This despite the fact that they are not commonly used in selling propositions. Contrary to what was expected, proving the Rules of Origin did not seem difficult. Not even for SMEs, as they often tend to have shorter value chains.

While this paper states that a lack of information is indeed the reason for half of the 185 companies not to export under FTA regulation, it turns out that about one third of those companies made the deliberate choice not to export under an FTA even though they easily could, mostly because the importer does not ask the Belgian company to do so. Not complying with the Rules of Origin, or not knowing how to comply, is not such a crucial factor as anticipated. This seems to be in line with the finding that companies using the FTA do not have many difficulties to obtain the Certificate of Origin.

The share of companies working with shipping agents (almost 30%) was higher than anticipated. In fact, more companies in the survey work with a shipping agent for the shipping procedures (107) than use the FTA directly. As expected, SMEs are overrepresented. The paper reveals that most exporters using a shipping agent would indeed like those agents to use the FTA. This is confirmed by the fact that a majority of those companies would use the FTA if they would export without the agents. Strikingly however, over 80% of the exporters does not know whether their shipping agent works with the FTA or not.

Part 2: further research and actions

The findings of part 2 can be seen as a first introduction which may stimulate further research to seek verification of specific findings and to start policy actions.

Those actions may include spreading the message that FTAs are perceived as decisive for companies, and encouraging companies and particularly SMEs to use FTAs by showing that proving the Rules of Origin is not a major hurdle for many companies. It is clear that companies need to receive more information on the FTAs. Nevertheless, it is important to consider that not all companies will be reached, as 1 in 3 companies deliberately choose not to export under FTAs.

An interesting area for further research would be to find out to what extent shipping agents use FTAs for their clients, since the clients themselves do not seem to know this. If the utilisation turns out to be minimal, focusing on this domain could turn out to be very efficient to improve the match of Belgian exporters and Free Trade Agreements

PART 1
ARE BELGIAN EXPORTERS MAKING THE MOST OUT OF THE OPPORTUNITIES PROVIDED BY THE FTAs?

ARE BELGIAN EXPORTERS MAKING THE MOST OUT OF THE OPPORTUNITIES PROVIDED BY THE FTAs?

To assess whether Belgian exporters and Free Trade Agreements are a good match, first we need to evaluate *how* they can match. Five different measures are used in chapter 1.1 to assess whether Belgian companies make the most out of the 30 FTAs or not. [1-2]

While it is tempting to look at the total value of Belgian exports to the countries with FTAs in place (layer 1) to evaluate whether Belgian companies can benefit from a Free Trade Agreement or not, this is in fact not a solid indicator. Finding out how much trade of this export is eligible under the preferential regime of the FTA (layer 2) already gives better insight. But being allowed to trade under the preferential regime of the FTA does not mean that companies actually do so. Therefore, it is revealing to find out the Preference Utilisation Rate (layer 3).

Next, this paper evaluates which FTAs can bring most benefit for Belgian exporters by assessing the Potential Duty Savings (layer 4). Finally, in order to estimate whether Belgian exporters use the FTA efficiently or not, the Foregone Duty Savings are analysed (layer 5).

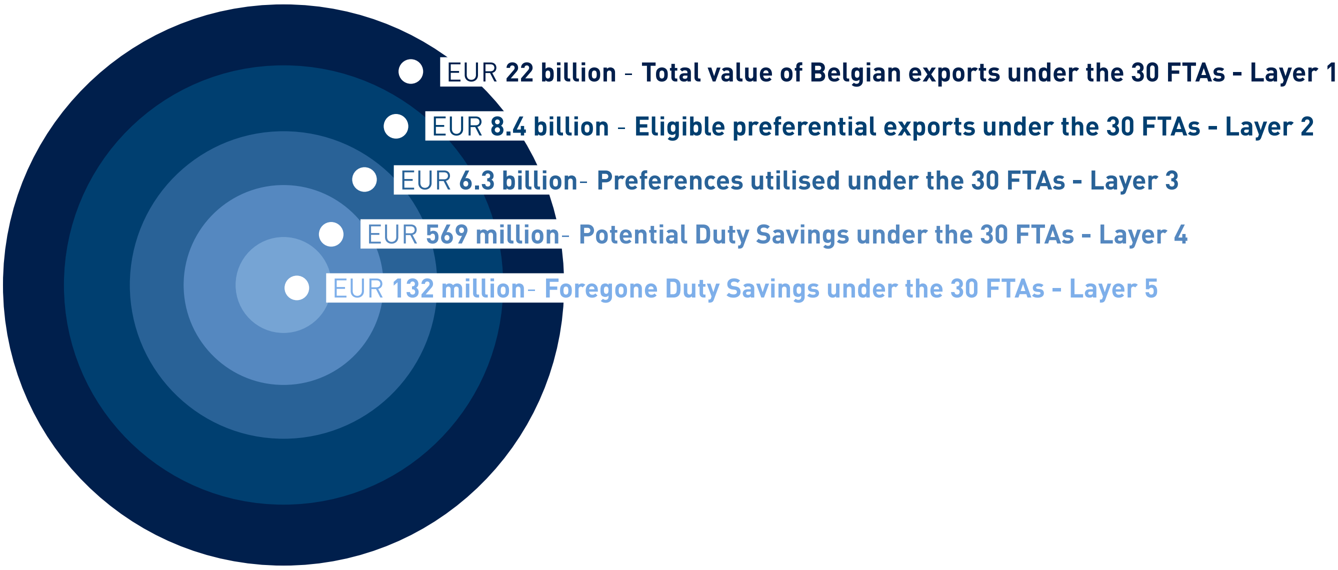
As our institutional partners need evidence-based policy to act, chapter 1.2 aims to find combinations of Belgian exporting sectors and the 30 importing partner countries in order to identify the most Potential Duty Savings and the highest Foregone Duty Savings. [3]

In order to focus on the most pressing issues, this paper works with certain thresholds. Out of the 660 potential combinations of sectors and countries, only those with Potential Duty Savings of minimum EUR 5 million and Foregone Duty Savings of minimum EUR 1 million are taken into consideration.

Subsequently, this paper compares the combinations with the highest Foregone Duty Savings for Belgian exporters with the EU-27 countries (chapter 1.3).

The goal is to find out whether Belgian exporting companies in those sectors are underperforming, or whether there may be problems at the importing country or a combination of both. In order to have a common gauge, the Duty Savings Rates are assessed.

Finally, chapter 1.4 summarizes the findings and points out action points for further research.



[1] In accordance with the European Commission, this study categories the agreements with the respective countries as Free Trade Agreements. In reality, most agreements are known under other names (Association Agreement, Global Agreement, customs union...) and include other areas of cooperation too. For more information: see annex 1.1

[2] The European Commission provided data for 31 countries, but as Belgian companies did not export to one of those 31 countries, namely the Dominican Republic, this country is omitted from the further analysis. While the study focuses on the outcome of the FTAs for the 30 countries, the EU had FTAs in place with 76 countries in 2019. Because by far most key Belgian trading partners (except for Norway) are included in the 30 countries discussed, the impact of the remaining countries is estimated to be limited and unlikely to change the overall picture.

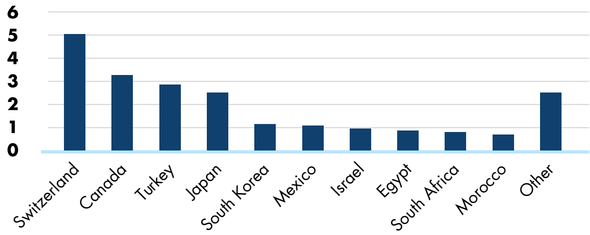
[3] In this paper, the term 'sector' coincides with a product group in the nomenclature used for trade statistics. In total, 22 product groups are identified, ranging from 'live animals; animal products' (S01) to 'Goods not elsewhere classified' (S22).

1.1: FIVE WAYS OF MEASURING

Layer 1:
The total value of the Belgian exports

Belgian companies exported to the 30 selected countries goods worth EUR 22 billion in 2019. (Figure 1) This represents 20% of all the Belgian non-EU trade. Among those 30 countries, we find 6 countries that bought Belgian goods worth over EUR 1 billion: Switzerland (EUR 5.1 billion), Canada (EUR 3.3 billion), Turkey (EUR 2.9 billion), Japan (EUR 2.5 billion), South Korea (EUR 1.2 billion) and Mexico (EUR 1.1 billion).

Figure 1: Total value of the Belgian exports to 30 FTA partners (in EUR billion).



Source: European Commission, based on data from 30 FTA partners, 2019.

Layer 2:
Eligible preferential export under the FTA

As stated, the existence of the FTA does not mean that the entire bilateral trade falls under the FTA. In fact, from the EUR 22 billion, only EUR 8.4 billion is eligible for preferential trade according to the data provided by the European Commission. Some clarifications can help explain this gap.

Firstly, a large proportion of the products were already free of import tariffs under the WTO MFN rules. The Free Trade Agreements therefore have no impact on the import tariffs for those products.

Secondly, it is possible that certain products are not included in the scope of the Free Trade Agreements. Naturally, depending on the structure of production and trade, the bilateral trade might take place in mainly some of those (sensitive) products that are excluded.

Thirdly, there is a technical explanation when the tariff structures of the trading partners are complicated, e.g. seasonal tariffs, which do not match the annual trade data that the European Commission receives from partner countries.

And fourthly, some imports fall under special tariff regimes (inward processing scheme, import into free zone, duty suspensions, etc). These are not considered as eligible for preferential trade.

Layer 3:
Preferences utilised

A way to measure the effectiveness of Free Trade Agreements can be to compare the extent to which the lowered or abolished import tariffs are effectively utilised as a share of all preference eligible imports. Having the possibility to trade under a preferential regime does not mean all exporting companies actually do so. In fact, out of the eligible EUR 8.4 billion, only products worth EUR 6.3 billion are exported under the terms of the FTAs. This means that the ratio of utilised preferences, expressed as the Preference Utilisation Rate, or PUR, stands at 74%. [4]

The more important the trading partner country, the more likely to have a higher PUR it seems. Without taking Japan into account, the PUR for the 9 other main trading partners, which together import EUR 17 billion out of EUR 22 billion of Belgian products, would increase to 81%.

On the other hand, Guatemala, Nicaragua, El Salvador and Honduras are all part of the same Free Trade Agreement and imported together EUR 129 million in Belgian imports in 2019.[5] The PURs with those countries was a mere 31%, 23%, 22% and 20% respectively.

A hypothesis for this finding could be that the export to important trading partners is more recurrent and has higher value, which justifies the needed paperwork. This could be analysed in further research.

At the same time, the PUR with Japan, an important trading partner, is also very low, at 24%. But being in force only since 2019, this FTA may need some more time to grow as certain tariffs are slowly phasing out.

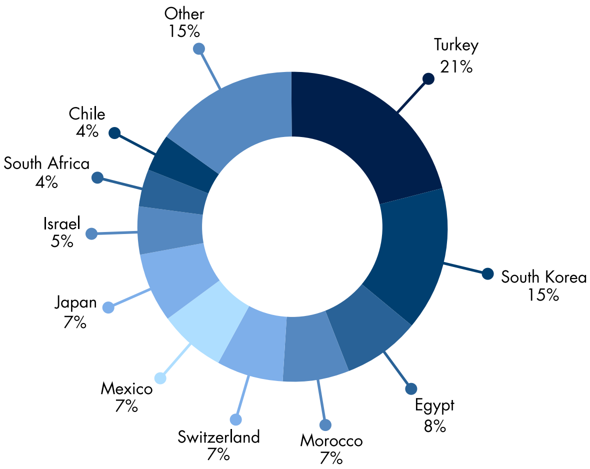
Still, the PUR only tells a limited story. Its measurement is based on the value of goods under the trade preferences, but does not reflect the actual duty savings. Those duty savings depend on the value of the trade flows and the level of the tariff.

Layer 4:
Potential Duty Savings

For the 30 countries, importers would have to pay EUR 569 million in import tariffs in 2019 to import Belgian products without the Free Trade Agreements. In other words, if the Free Trade Agreements were perfectly applied and executed, Belgian products would be EUR 569 million cheaper for importers.

The majority of these Potential Duty Savings can be found in 8 countries: at the top are Turkey (EUR 121 million) and South Korea (EUR 86 million). At respectable distance follow Egypt (EUR 46 million), Morocco (EUR 41 million), Switzerland, Mexico, Japan and Israel (all between EUR 30 and 38 million). The other 22 countries combined account for less than a quarter of the Potential Duty Savings. (Figure 2)

Figure 2: Potential duty savings with 30 FTA partners (in % of the total Potential Duty Savings)



Source: European Commission, based on data from 30 FTA partners, 2019.

Of this EUR 569 million Potential Duty Savings, EUR 437 million was also actually saved, expressed as "Actual Duty Savings". Turkey leads the way with EUR 106 million, followed by South Korea (EUR 68 million), Egypt (EUR 33 million), Morocco (EUR 33 million), Switzerland (EUR 32 million) and Mexico (EUR 31 million).

The Duty Savings Rate (DSR) determines to what extent the Potential Duty Savings are effectively saved or foregone. The average DSR of Belgian companies is 77%.

[4] *Calculating averages on PUR and DSR across partner countries always implies imperfections because datasets are not harmonised, each coming from a different partner country.*

[5] *Namely the "Association Agreement with a strong trade component between Central America and the European Union".*

Layer 5:
Foregone Duty Savings

Import tariffs worth EUR 132 million are still being paid by clients of Belgian companies, although this is no longer necessary thanks to the FTAs in place. This loss is referred to as 'Foregone Duty Savings'.

There are 10 countries where the Foregone Duty Savings exceed EUR 5 million. Japan (EUR 26 million), South Korea (EUR 18 million), Turkey (EUR 15 million), Egypt (EUR 13 million), Israel (EUR 11 million) and Morocco, South Africa, Mexico, Switzerland and Canada (all between EUR 7.8 million and EUR 5.8 million). (Figure 3.a)

Among those 10 countries, Japan has by far the lowest Duty Savings Rate (29%). The two following countries with high Foregone Duty Savings, South Korea and Turkey have a better DSR than the overall average. (Figure 3.b) This will be discussed in more depth in chapter 1.2.

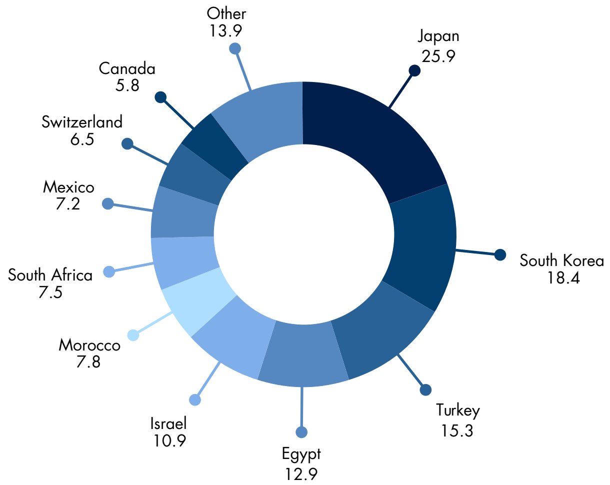
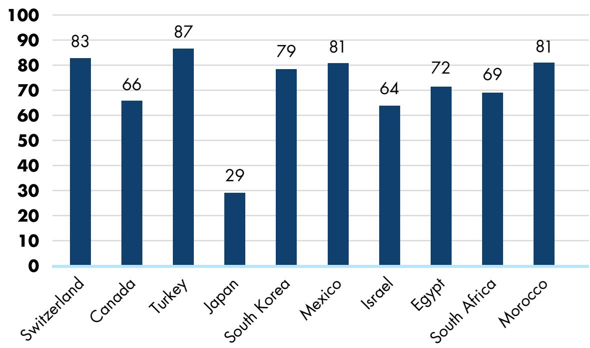


Figure 3.a: Foregone Duty Savings with 30 FTA partners (in EUR million).

Source: European Commission, based on data from 30 FTA partners, 2019.

Figure 3.b: Duty Saving Rate of Belgian exporters to selected importing countries (in %).

Source: European Commission, own calculation based on the 10 FTAs where total imports of Belgian goods exceed EUR 0.5 billion, 2019.



1.2: ANALYSIS OF POTENTIAL AND FOREGONE DUTY SAVINGS

In Chapter 1.2, we will focus on two parameters that may uncover the most tangible ways to improve the utilisation of Free Trade Agreements. Those are the Potential Duty Savings and the Foregone Duty Savings.

First, we take a look at the Potential Duty Savings by investigating in which sectors substantial import duties potentially could be saved by importers of Belgian products. Substantial is defined as EUR 5 million or more Potential Duty Savings per year. Subsequently, we analyse the outcome in two ways. Once with a focus on the 30 importing countries and once with the 22 sectors as a starting point.

Secondly, we examine the Foregone Duty Savings by following the same procedure. However, the threshold for the Foregone Duty Savings lies at EUR 1 million.

Although the data on sectors provided by the European Commission and discussed below is relevant as a first step, it is necessary to identify pockets of low utilisation at a more detailed specific level in order to have deeper insight.

Finding 1: A focus on 31 combinations can target 59% of all Potential Duty Savings

From the 660 possible combinations of sectors and importing countries, 31 combinations can gain more than EUR 5 million annually in Potential Duty Savings (see table 1).

Together, these 31 combinations of product groups and importing countries are worth EUR 337 million in Potential Duty Savings and thus in theory in competitiveness. By comparison, the more than 600 other combinations are worth only EUR 232 million.

In those various combinations, 11 countries and 8 sectors appear.

Topping the list are 'plastics, rubber and articles thereof' imported by Turkey with Potential Duty Savings of about 39 million EUR, followed by 'products of the chemical or allied industries' and 'base metals and articles thereof' worth EUR 27 million and EUR 25 million, both imported by Turkey too.

Table 1: Countries where clients of Belgian exporters have the highest Potential Duty Savings, by sector (in EUR million).

Source: European Commission, based on data from 30 FTA partners, 2019.

Country	Sector	HS-code	Potential Duty Savings
Turkey	plastics, rubber and articles thereof	S07	38.9
Turkey	products of the chemical or allied industries	S06	27.2
Turkey	base metals and articles thereof	S15	24.8
Japan	products of the chemical or allied industries	S06	21.9
South Korea	foodstuffs, beverages, tobacco	S04	19.7
South Korea	products of the chemical or allied industries	S06	18.9
South Korea	vegetable products	S02	12.7
Israel	live animals; animal products	S01	11.4
Egypt	base metals and articles thereof	S15	11.3
South Korea	live animals; animal products	S01	11.2
Egypt	machinery and appliances	S16	9.6
Morocco	foodstuffs, beverages, tobacco	S04	8.5
Mexico	products of the chemical or allied industries	S06	8.5
Japan	foodstuffs, beverages, tobacco	S04	8.3
Mexico	base metals and articles thereof	S15	8.3
South Korea	machinery and appliances	S16	7.8
Mexico	transport equipment	S17	7.3
South Africa	foodstuffs, beverages, tobacco	S04	7.1
Egypt	transport equipment	S17	6.6
Turkey	transport equipment	S17	6.5
Switzerland	foodstuffs, beverages, tobacco	S04	6.4
Switzerland	plastics, rubber and articles thereof	S07	6.4
Turkey	live animals; animal products	S01	6.1
Morocco	base metals and articles thereof	S15	5.5
Egypt	products of the chemical or allied industries	S06	5.4
Morocco	transport equipment	S17	5.3
Switzerland	transport equipment	S17	5.2
Morocco	products of the chemical or allied industries	S06	5.2
Canada	foodstuffs, beverages, tobacco	S04	5.2
Serbia	foodstuffs, beverages, tobacco	S04	5
Egypt	foodstuffs, beverages, tobacco	S04	5

Finding 2:
The FTAs with Turkey and South Korea can generate by far most Potential Duty Savings

Overall, the highest Potential Duty Savings can be found in countries with the highest preference eligible imports, with Switzerland as notable exception. Despite over EUR 1 billion in preferential trade (2nd of the 30 countries), importing Swiss clients can only gain Potential Duty Savings worth EUR 38 million (5th), and in the 31 combination this shrinks further to EUR 18 million (7th). The preference margin of Switzerland is indeed one of the lowest among the 30 partner countries.

Turkey, South Korea and Egypt appear five times in Table 1 as countries where imports from Belgian sectors can enjoy over EUR 5 million in Potential Duty Savings. Next is Morocco (4 sectors), followed by Mexico and Switzerland (3 sectors).

In absolute numbers, we see Turkey on top with Potential Duty Savings worth EUR 104 million. (Figure 4) As a reminder, this EUR 104 million is the sum of all the 31 combinations where Turkey is involved as importer and not the total Potential Duty Savings from Turkish importers, which would stand at EUR 121 million. The choice was made to focus on the combinations only, in the name of clarity.

The top position of Turkey is not surprising, as most preference eligible imports are also found in this country. As a Customs Union, the tariff gains are higher than in 'regular' FTAs. Additionally, the top 3 combinations in Table 1 have Turkey as importing country.

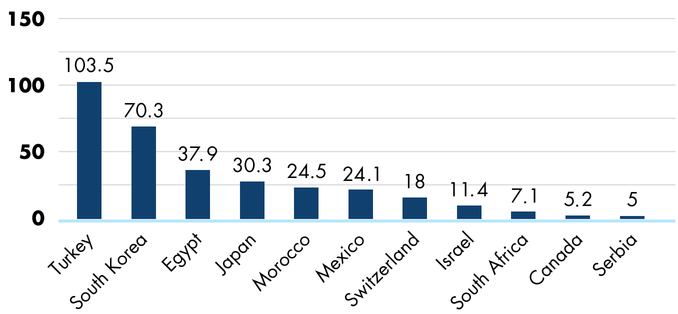


Figure 4: Countries where clients of Belgian exporters have the highest Potential Duty Savings (in EUR million).

Source: European Commission data, own calculation based on the 31 combinations of sectors from the 30 FTAs where the Potential Duty Savings exceed EUR 5 million, 2019.

Finding 3:
The Belgian exporters of chemical products and foodstuffs can present the highest Potential Duty Savings to their clients

The FTAs concluded by the European Commission seem to be most interesting for the Belgian 'foodstuffs, beverages, tobacco' sector when we look at the number of importing countries affected. In no less than 8 countries, this sector can gain Potential Duty Savings of over EUR 5 million.

Second are 'products of the chemical or allied industries' (in 6 countries), followed by 'transport equipment' in 5 countries and 'base metals and articles thereof' in 4 countries.

In absolute numbers, the chemical sector could reap most potential benefits if the Potential Duty Savings are indeed translated into higher competitiveness. In 2019 alone, the clients of the Belgian chemical sector would have saved 87 million EUR in duties out of the total EUR 337 million in the 31 combinations. This means a quarter of all the Potential Duty Savings (Figure 5).

This does not come as a surprise. Chemical products are also overrepresented in the Belgian export, with a value of 25% of all Belgian export products. Additionally, they have a similar percentage in preferential eligible imports.

The second place of 'foodstuffs, beverages and tobacco' with EUR 65 million or 19% of the total Potential Duty Savings on the other hand is remarkable. 'Foodstuffs' are only the 7^{th} category of goods exported by Belgian companies, with a value of 6% of the Belgian exports, and account for 10% of the preference eligible imports.

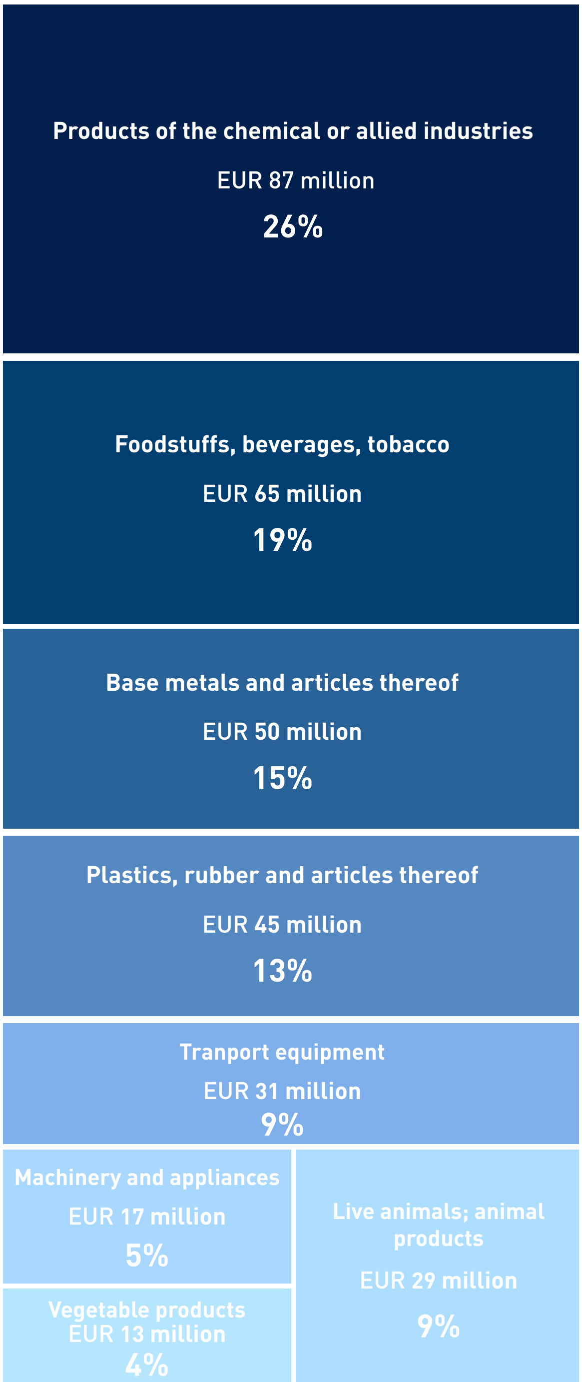
With 15% of all the Potential Duty Savings, importers of 'Base metals' can reap the third most advantages when focussing on the 31 combinations. This while they represent 11% of the preference eligible imports and 8% of total Belgian exports.

For the exporters of 'plastics, rubber and related articles' and 'transport equipment', the share of Potential Duty Savings is in line with the share of preference eligible imports.

The sector of 'live animals, animal products' on the other hand is certainly overrepresented when looking at Potential Duty Savings, worth EUR 29 million or almost 9% of the Potential Duty Savings of the 31 combinations, while representing only 1% of the preference eligible imports and 2% of total Belgian exports. This implies that the tariffs faced by those producers, who can now benefit from the FTAs, are steep.

Figure 5: Sectors where clients of Belgian exporters have the highest Potential Duty Savings (in EUR million and as % of total PDS).

Source: European Commission, based on data from 30 FTA partners, 2019.



Finding 4:
A focus on 26 combinations can target 66% of the Foregone Duty Savings

We find 26 combinations where the Foregone Duty Savings are higher than EUR 1 million. (Table 2) Together, these 26 combinations have a value of EUR 87 million worth of duties still being paid even though this should not be necessary due to the existing FTAs. By way of comparison, the more than 600 other combinations represent together a loss of EUR 45 million in potential competitiveness.

Topping this list undisputedly are 'products of the chemical or allied industries' exported to Japan, where almost EUR 19 million of competitive value was lost in 2019. This sector was followed by 'base metals and articles thereof' exported to Egypt worth EUR 6.1 million in Foregone Duty Savings and 'vegetable products' exported to South Korea worth EUR 5.8 million. The list continues with three times in a row the appearance of the category 'live animals; animal products', each time representing lost competitiveness of the Belgian sector amounting to just over EUR 5 million.

The Foregone Duty Savings for the 26 combinations may be this high due to two of the following reasons or a mixture of both.

The most common reason is the low utilisation of the FTA, expressed as the average Duty Savings Rate. For Belgian exporters in general, this stands at 77%, but 20 out of the 26 combinations in the list have a lower DSR. The low point is 'products of the chemical or allied industries' exported to Japan with a DSR of 15%.

The high Foregone Duty Savings can also be accounted for by the sheer value of a certain combination. An extreme example is the import of Belgian 'plastics, rubber and articles thereof' in Turkey. 92% is channelled through the Customs Union, but the Foregone Duty Savings still amount to EUR 3.3 million.

Table 2: Countries where clients of Belgian exporters have the highest Foregone Duty Savings, by sector with their respective Duty Savings Rate (in % and in EUR million).

Source: European Commission data, own calculation based on the 26 combinations of product groups from the 30 FTAs where Foregone Duty Savings exceed EUR 1 million, 2019.

Country	Sector	HS-code	Duty Savings Rate	Foregone Duty Savings
Japan	products of the chemical or allied industries	S06	15	18.7
Egypt	base metals and articles thereof	S15	46	6.1
South Korea	vegetable products	S02	55	5.8
South Korea	live animals; animal products	S01	50	5.6
Israel	live animals; animal products	S01	53	5.4
Turkey	live animals; animal products	S01	16	5.1
Japan	foodstuffs, beverages, tobacco	S04	55	3.7
Turkey	plastics, rubber and articles thereof	S07	92	3.3
Morocco	machinery and appliances	S16	40	2.7
Egypt	machinery and appliances	S16	72	2.7
Israel	transport equipment	S17	34	2.6
Switzerland	textiles and textile articles	S11	41	2.6
Turkey	products of the chemical or allied industries	S06	91	2.4
Mexico	products of the chemical or allied industries	S06	74	2.2
South Africa	foodstuffs, beverages, tobacco	S04	70	2.2
Morocco	transport equipment	S17	64	1.9
South Korea	products of the chemical or allied industries	S06	90	1.8
Japan	plastics, rubber and articles thereof	S07	35	1.7
Canada	transport equipment	S17	64	1.5
Morocco	base metals and articles thereof	S15	73	1.5
Mexico	machinery and appliances	S16	22	1.5
South Korea	machinery and appliances	S16	82	1.4
Turkey	foodstuffs, beverages, tobacco	S04	76	1.2
South Africa	base metals and articles thereof	S15	33	1.0
South Korea	foodstuffs, beverages, tobacco	S04	95	1.0
Switzerland	transport equipment	S17	81	1.0

Finding 5:
Most progress can be made in trade with Japan, South Korea and Turkey

Out of the 30 countries taken into consideration for this paper, 10 appear in Table 2.

A rather strong link seems to be present between Table 1 (Potential Duty Savings) and Table 2 (Foregone Duty Savings). The 4 countries where clients of Belgian exporters have the highest Foregone Duty Savings are the same as the 4 countries where clients of Belgian exporters have the highest Potential Duty Savings.

Nevertheless, the order is slightly different, with Japan topping this list (Figure 6). This is mainly due to the exceptionally high amount of duties still paid for Belgian 'products of the chemical or allied industries'. It is followed by South Korea.

The South Korean importers have Foregone Duty Savings of over EUR 1 million when purchasing from 5 different Belgian sectors. Also Turkey, Morocco and Japan can save import tariffs worth over EUR 1 million in multiple sectors (respectively 4, 3 and 3).

Although in the above indicators both Japan and South Korea are the countries where much work can be done to downsize the Foregone Duty Savings, the difference between the two countries in the Duty Savings Rate is very big with 79% for South Korea and 29% for Japan. (Figure 8).

Table 2 shows that for the 3 industrial sectors where the South Korean FDS is higher than EUR 1 million, the DSR is high (between 82% and 95%), while for the agricultural products the DSR is low (50% for live animals, animal products' and 55% for 'vegetables products').

For exporters to Japan, on the other hand, all three sectors in Table 2 are performing much under the average, with a DSR of 15%, 35% and 55%.

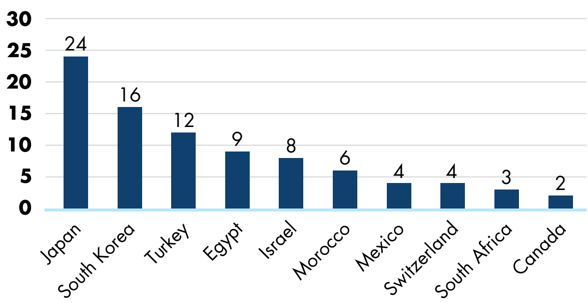


Figure 6: Countries where clients of Belgian exporters have the highest Foregone Duty Savings (in EUR million).

Source: European Commission data, own calculation based on the 26 combinations of product groups from the 30 FTAs where Foregone Duty Savings exceed EUR 1 million, 2019.

Finding 6:
Importers of Belgian chemical and animal products have the most Foregone Duty Savings

Out of the 9 sectors in Table 2 listing the Foregone Duty Savings of over EUR 1 million in 2019, 6 appear in three or four countries.

The link between Table 1 (Potential Duty Savings) and Table 2 (Foregone Duty Savings) seems less strong when we look at the sectors compared to the countries. Out of the 4 sectors where clients of Belgian exporters have the highest Foregone Duty Savings, only 2 sectors appear in which clients of Belgian exporters have the highest Potential Duty Savings.

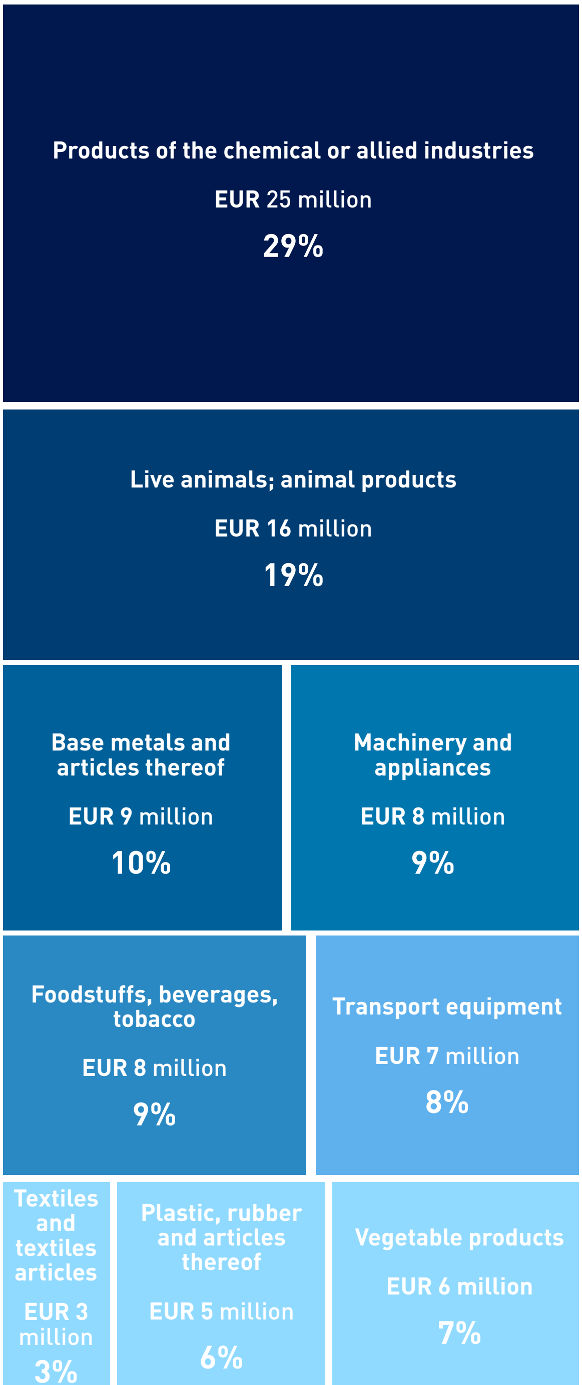
In absolute figures, the sector where most competitiveness can be gained is 'products of the chemical and allied industries'. (Figure 7) Once more, it should be noted that the ranking is influenced by the exceptional loss of competitiveness in Japan of almost EUR 19 million within the chemical sector. Additionally, this sector topped the list of Potential Duty Savings and is the most important export sector of the Belgian economy.

The second spot of live animals, animal products is more surprising. It ranked only 6th in Potential Duty Savings but is with a great distance second in the ranking of Foregone Duty Savings.

The exporters of 'foodstuffs' and certainly 'Plastics, rubber and articles thereof' on the other hand seem to be able to make the most of the FTAs.

Figure 7: Sectors where clients of Belgian exporters have the highest Foregone Duty Savings (in EUR million and as % of total FDS).

Source: European Commission data, own calculation based on the 26 combinations of product groups from the 30 FTAs where Foregone Duty Savings exceed EUR 1 million, 2019.



1.3: COMPARISON WITH THE EU

In the previous chapter, we analysed the utilisation of FTAs by Belgian exporters on country level and sectoral level. In this chapter, the goal is to find out whether the EU peers have a similar utilisation as the Belgian companies.

As the absolute value of the Foregone Duty Savings is irrelevant when comparing one country to 27 countries, the focus will be on the Duty Savings Rate or DSR. As explained in chapter 1.1, the DSR determines to what extent the Potential Duty Savings are effectively utilised or foregone.

First, we try to gain an insight on how well Belgium is performing in general. We look at the performance of Belgian exporters to FTA partners that import goods worth over 500 million EUR. According to the data of the European Commission, this is the case for 10 countries (Figure 8).

Secondly, we will look into the 26 combinations where most Foregone Duty Savings were found when importing Belgian products. If the Duty Savings Rate of those combinations is also low for other EU countries, it could be a signal that the European Commission could look deeper into those tariff lines of the FTAs. If the DSR is higher among EU peers, the low utilisation would mean that the solution is more likely to be found in Belgium (Table 3).

Finding 7:
Overall, Belgian companies use the FTAs as effectively as the EU peers based on the Duty Savings Rate, with Japan as major outlier

The Duty Savings Rate of the Belgian companies with the 30 countries stands at 77%. For the EU-27 this stands at exactly the same level.

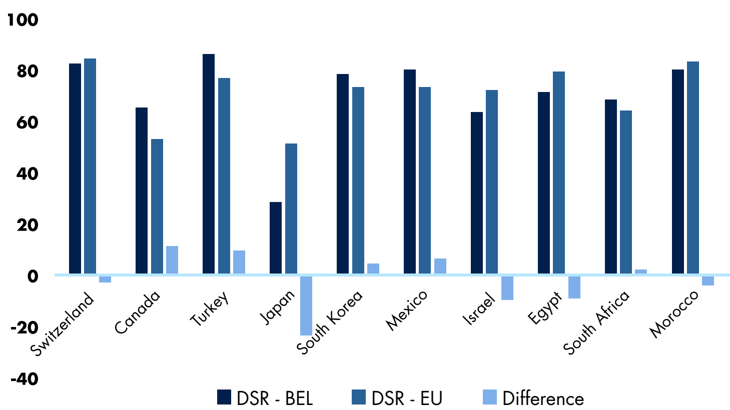
Looking at the 10 countries that import more than EUR 500 million worth of Belgian goods, Belgian companies score better than the EU-27 in half of the cases and less well in the other half. (Figure 8)

We found that Belgian exporters had the highest Foregone Duty Savings in Japan. Here, the EU-27 scores significantly better. The Belgian DSR stands at 29%, while the EU-27 DSR is 52%. It would be interesting to find out why this is the case.

In South Korea and Turkey (with DSR of 79% and 87% respectively), the next countries with most Foregone Duty Savings on Belgian imports, Belgium does not underperform compared to the EU average (5 pp and 9 pp better respectively). In Egypt and Israel, country number 4 and 5 with the most Foregone Duty Savings (DSR 72% and 64% respectively), Belgian companies are on the other hand underperforming compared to the EU peers. (9 pp and 8 pp respectively).

Figure 8: Comparison of the Belgian DSR and the EU-27 DSR among importing countries buying more than EUR 500 million worth of Belgian goods (in %).

Source: European Commission, own calculation based on the 10 FTAs where total imports of Belgian goods exceed EUR 0.5 billion, 2019.



Finding 8:
In most of the 26 combinations with the highest Foregone Duty Savings, Belgian exporters are underperforming compared to the EU-27

In 14 of the 26 combinations where import tariffs were unnecessarily still being paid by the importers of Belgian products for a value over EUR 1 million, the Belgian Duty Savings Rate is below the EU-27 average. (Table 3) The result is more outspoken when focusing on the 12 combinations where the Foregone Duty Savings are higher than EUR 2.5 million. Here, the Belgian DSR is lower than the EU-27 in 8 out of 12 cases. In 3 of the remaining combinations, Belgian companies perform very similarly (+1, +3 and +4 percentage points).

If we look at the combinations in Table 3 where Belgium is underperforming most, 'transport equipment' exported to Israel stands out (-57 percentage points). Because transport equipment can be a 'one shot' high value, it would be interesting to follow up whether this endures in the following years. Also 'live animals; animal products' in Turkey and South Korea are much less cost efficient imported from Belgium than from other EU countries (-44% and -36%), as well as 'base metals' imported by South Africa.

As seen before, the average DSR of both Belgium and the EU-27 stands at 77%. In the 26 combinations, 15 are below this level for the EU-27. Therefore, it is safe to assume that in most cases the low utilisation of the Free Trade Agreement is not necessarily due to the nature of the FTA itself. Nevertheless, in 7 combinations the EU-27 DSR is below 50%. In those cases, the solution may be found with the importing partner.

Table 3: Comparison of the Belgian DSR and the EU-27 DSR in importing countries, presented in order of the largest Foregone Duty Savings of the Belgian sectors (in EUR million and in %).

Source: European Commission, own calculation based on the 26 combinations of product groups from the 30 FTAs where the Foregone Duty Savings exceed EUR 1 million, 2019.

Country	Foregone Duty Savings	Sector	DSR - BEL	DSR - EU	DSR - Differ
Japan	18.7	products of the chemical or allied industries	15	31	-16
Egypt	6.1	base metals and articles thereof	46	50	-4
South Korea	5.8	vegetable products	55	13	42
South Korea	5.6	live animals; animal products	50	86	-36
Israel	5.4	live animals; animal products	53	52	1
Turkey	5.1	live animals; animal products	16	60	-44
Japan	3.7	foodstuffs. beverages. tobacco	55	83	-28
Turkey	3.3	plastics. rubber and articles thereof	92	88	4
Morocco	2.7	machinery and appliances	40	62	-22
Egypt	2.7	machinery and appliances	72	69	3
Israel	2.6	transport equipment	34	91	-57
Switzerland	2.6	textiles and textile articles	41	46	-5
Turkey	2.4	products of the chemical or allied industries	91	81	10
Mexico	2.2	products of the chemical or allied industries	74	86	-12
South Africa	2.2	foodstuffs. beverages. tobacco	70	74	-4
Morocco	1.9	transport equipment	64	82	-18
South Korea	1.8	products of the chemical or allied industries	90	87	3
Japan	1.7	plastics. rubber and articles thereof	35	43	-8
Canada	1.5	transport equipment	64	26	38
Morocco	1.5	base metals and articles thereof	73	82	-9
Mexico	1.5	machinery and appliances	22	49	-27
South Korea	1.4	machinery and appliances	82	74	8
Turkey	1.2	foodstuffs. beverages. tobacco	76	57	19
South Africa	1	base metals and articles thereof	33	75	-42
South Korea	1	foodstuffs. beverages. tobacco	95	78	17
Switzerland	1	transport equipment	81	77	4

1.4: TAKEAWAYS AND POLICY SUGGESTIONS

Chapter 1.1

In order to analyse the importance of the 30 investigated Free Trade Agreements for Belgian companies, the first reflex is often to quote the total value of Belgian exports to the involved countries (EUR 22 billion). Nevertheless, it is more useful to find out how much trade is eligible under the preferential regime (EUR 8.4 billion) and even more so how much is actually traded under this preferential regime (EUR 6.3 billion).

The Belgian Preference Utilisation Rate, or PUR, stands at 74%. We find that, in general, the more important the trading partner is for Belgian companies, the higher the PUR.

More than on the sheer value of the Belgian exports, this paper focuses on the import tariffs that the partner countries no longer need to pay (EUR 569 million) and on the import tariffs that are despite the arrangements of the FTA still paid (EUR 132 million). It could be argued that Belgian products may become less attractive compared to similar products coming from other European exporters who make sure that the import tariffs do not have to be paid and thus become cheaper.

Coming from EUR 22 billion, an amount of EUR 132 million may seem irrelevant, but if our institutional partners focus on the latter, the former may improve as discussed in chapter 1.2.

Chapter 1.2

From the 660 possible combinations of sectors and importing countries, 31 combinations can gain more than EUR 5 million annually in Potential Duty Savings. Those 31 combinations have a value of EUR 337 million, which is considerably more than the EUR 232 million of the remaining combinations.

This list of 31 combinations may give insights to our institutional partners on what Belgian sectors are best placed to benefit from the Free Trade Agreements in 2019 as they have the highest competitive advantage gains. In follow up studies, it could be investigated whether those combinations and/or Belgian sectors significantly did improve their exports or not.

In general, the highest Potential Duty Savings can be found in countries with the highest preference eligible imports, with Switzerland as notable exception. The agreements with Turkey and South Korea can generate most Potential Duty Savings, both in the number of Belgian sectors that are affected (5) and the total value (EUR 104 million and EUR 70 million). The Belgian trade with Egypt and Japan stands out to gain a lot from the Free Trade Agreements too.

The FTAs concluded by the European Commission seem to be most interesting for the Belgian 'foodstuffs, beverages, tobacco' and the 'products of the chemical or allied industries' sector when we look at the number of partner countries affected (8 and 7 importers) and the absolute value of Potential Duty Savings (EUR 65 million and EUR 87 million respectively). The important potential gains for importers of Belgian 'foodstuffs' and 'live animals and animal products' are surprising given their significant smaller share in preference eligible imports and the total Belgian export of goods.

The list of sectors with the most Potential Duty Savings can be taken as a starting point to assess whether the sectors that have most potential gains from the FTAs received the needed guidance from our institutional partners, and to evaluate which key sectors are not having as many Potential Duty Savings as one could have expected based on their importance for the Belgian economy.

A focus on 26 combinations where the Foregone Duty Savings are higher than EUR 1 million can target 66% of all Foregone Duty Savings. Together, these 26 combinations have a value of EUR 87 million of duties still being paid unnecessarily. In most cases, this is due to a low utilisation of the FTA, although sometimes the sheer value of a certain combination may be the explanation. The combination of "products of the chemical or allied industries" in Japan is exceptionally high with Foregone Duty Savings of EUR 18.7 million, which is more than three times as much as the second combination.

The list of 26 combinations may be a starting point for institutional partners to question relevant sectors/companies on the reasons why their importing partners are still paying considerable amounts of import duties. This may be followed up with a targeted information campaign or incentives, with the ultimate goal to improve the competitiveness of the respective Belgian sectors.

Chapter 1.2

Most progress can be made in trade with Japan, South Korea and Turkey, despite a higher than average Duty Saving Rate in the two last countries. The South Korean importers have Foregone Duty Savings of over EUR 1 million when purchasing from 5 different Belgian sectors and the Turkish with 4 Belgian sectors, but the Japanese importers still have the highest Foregone Duty Savings (EUR 24 million), followed by South Korea (EUR 16 million). While the Duty Savings Rate is low for all three Japanese importing sectors, a closer look at the South Korean DSR on sectoral level reveals two different realities for agricultural and industrial products.

The fact that 5 sectors in South Korea have Foregone Duty Savings of over EUR 1 million could suggest that the FTA is not clear enough for many exporters. However, a higher than average DSR of 79% would suggest otherwise. Nevertheless, for the agricultural products, the DSR is very low, which may imply that the FTA is not clear enough indeed, or too demanding. For the 3 industrial sectors with high Foregone Duty Savings despite a high DSR, the value of the bilateral trade may be the decisive factor. In both cases, it should be investigated whether the South Korean companies perceive that the added value of the FTA is considered high compared to the WTO MFN regulations.

For exporters to Japan on the other hand, it seems clear that the FTA, with a DSR of 29%, still has to come to its full realisation. Companies may need more information in order to act, or more time to implement the rules. It will be critical to follow up the evolution in the coming years.

Importers of Belgian chemical and animal products have the most Foregone Duty Savings. This can be judged logical for the chemical sector due to the high Potential Duty Savings and because of the exceptional outlier in Japan. For the importers of live animals and animal products on the other hand, this is a rather unexpected performance, based on the Potential Duty Savings and the total Belgian export value.

The overall underusage in the sector of live animals and animal products could be investigated. Are the sanitary and phytosanitary requirements too strict under the FTA? Are the procedures not clear for the exporters? Are they not informed enough? The same goes, to a lower extent, for the exporters of machinery and appliances.

Chapter 1.3

Overall, Belgian companies use the FTAs as effectively as the EU peers, with a Duty Savings Rate of 77% for both Belgian and EU-27 companies. A notable exception is Japan, where Belgian companies are clearly underperforming compared to the EU-27. On the other hand, in South Korea and Turkey, which are the countries with second and third most Foregone Duty Savings on Belgian imports, Belgium does not underperform compared to the EU average.

These findings add value to the hypothesis raised in chapter 1.2 that an investigation could be useful on whether the procedures for agricultural products in the South Korean FTA are clear or realistic enough. Secondly, it will be interesting to find out why Belgian companies are underperforming in Japan compared to other EU countries.

In most of the 26 combinations with the highest Foregone Duty Savings, Belgian exporters are underperforming compared to the EU-27. The higher the Foregone Duty Savings, the more likely that Belgian companies are underperforming compared to their peers. Only in 7 combinations, the FTA may be too demanding because the importing sectors do not have a DSR of more than 50%.

It is an encouraging sign that the potential to improve lies mostly the Belgian sectors, rather than with the very nature of the FTAs. This implies that the right support may improve the outcome.

PART 2
WHAT ARE THE MOTIVES OF BELGIAN EXPORTERS (NOT) TO USE THE FTAs

WHAT ARE THE MOTIVES OF BELGIAN EXPORTERS (NOT) TO USE THE FTAs

In part 1, we noticed that in 2019 import duties worth EUR 132 million were still being paid in 30 countries. At the same time, the actual duty saving rate stood at 77%, which means that EUR 437 million in duties was effectively saved. Behind those numbers, we can find hundreds of Belgian companies that made the decision to export under the preferential regime of the FTAs or not.

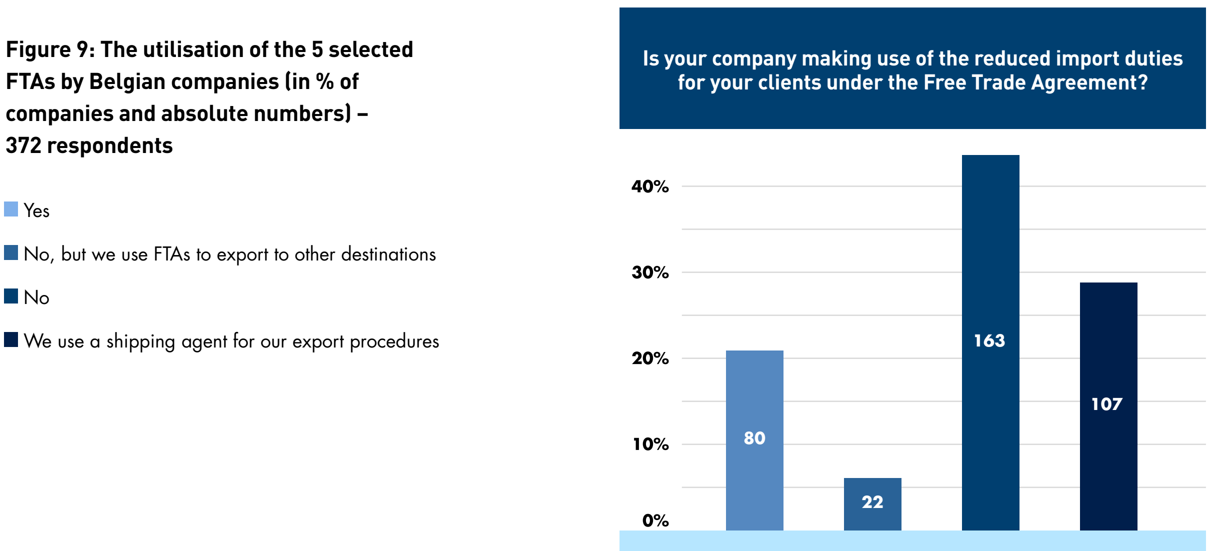
The ambition of part 2 is to get more insight on why companies "use" the FTA (chapter 2.1), why they "do not use" the FTA (chapter 2.2) and to get a better insight in the importance of third parties such as freight forwarders when it comes to using the FTAs (chapter 2.3).

To have enough feedback of companies not using the FTA, the decision was made to send a survey to companies exporting to Egypt, Israel, Morocco, South Africa and Mexico. These countries were selected because, according to available data of the European Commission at the time of the survey, those 5 countries had the highest Foregone Duty Savings when trading with Belgian companies. [7]

Flanders Investment & Trade, AWEX and hub.brussels sent a survey via Surveymonkey in October 2019 and the Belgian Foreign Trade Agency sent the same survey to its database in the following month. In total, approximately 7500 producers, service providers and wholesalers were contacted. 372 companies responded to the survey. [8]

Among the participants, 21% indicate that they use an FTA for their export to one of the 5 selected countries. Another 29% of the enterprises specify that they work with a freight forwarder for export procedures. This means that 50% of the participating companies mention that they do not use the FTAs to one of the five countries. (Figure 9)

Figure 9: The utilisation of the 5 selected FTAs by Belgian companies (in % of companies and absolute numbers) – 372 respondents



[7] *In the latest data on which we based part 1, those countries were surpassed by Japan, South Korea and Turkey, but are still respectively number 4 until number 8. Together they represent EUR 46 million of the EUR 132 million Foregone Duty Savings (35% of the total).*

[8] *For more information on the methodology and definitions: see annex 1.2, for the questions of the survey, see annex 1.3.*

A profile of the participating companies

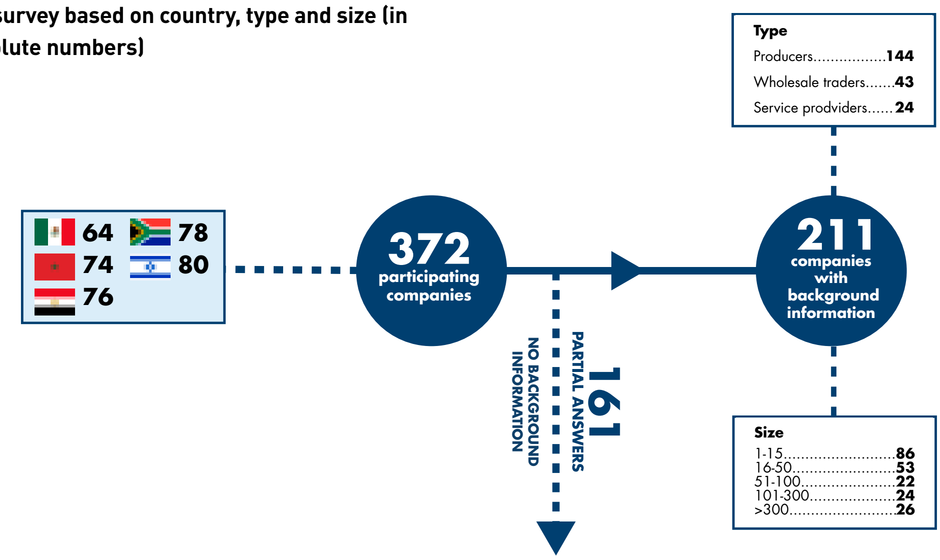
A total of 372 companies participated in the survey. Of these, 57% (211 companies) provided background information that allows us to differentiate on elements such as type of business and the number of employees, referred to as size of the company. (Figure 10)

Country: The 5 countries are all nearly similarly represented. Exporters to Mexico are in the minority, but between the penultimate, Morocco, and the highest representation, Israel, there is hardly any difference.

Type of business: With 68%, the majority of the participating companies that provided background information are producers, 20% are wholesale traders and 12% are services providers. The participation of service providers brings a discrepancy compared to the results of part 1. In that part, only goods were taken into consideration.

Size of the company: 41% of the companies that provided background information belonged to the smallest category of companies with 1 to 15 employees. Another quarter of participating companies have 16 to 50 employees. This means that one-third of the companies have more than 50 employees. The categories 51-100, 100-300 and +300 are almost the same size. (10%, 11% and 12% respectively).

Figure 10: Belgian exporters participating to the survey based on country, type and size (in absolute numbers)



2.1 COMPANIES USING THE FTAs

A profile of exporters using the FTAs

A total of 80 companies declared to use the FTAs, among which 70 companies filled in the follow up questions. 58 exporters provided background information that allows us to differentiate on elements such as type of business and size of the company. (Figure 11) The size of the companies seems to be a good predictor of how well an FTA is used. The bigger the company, the more likely it becomes. The service providers are least represented.

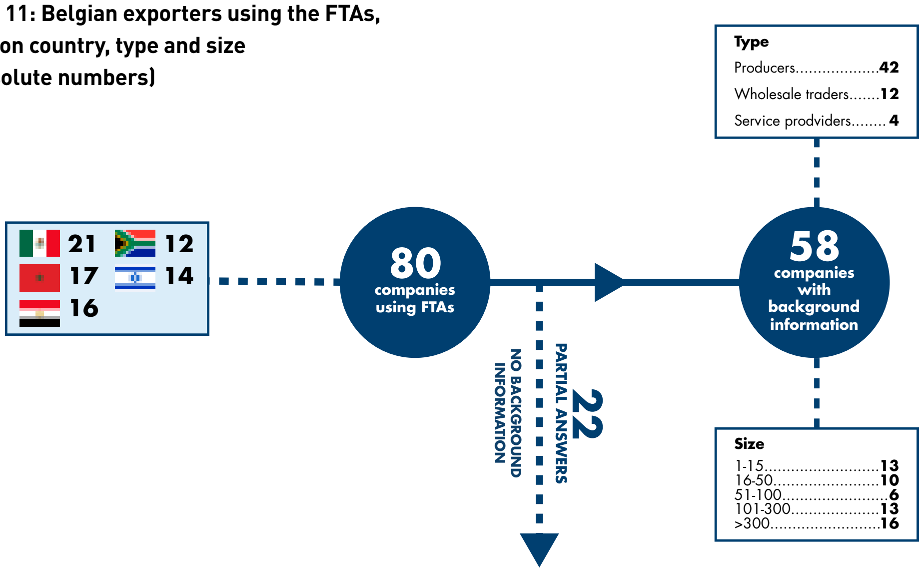
Country: Exporters to South Africa are the least represented in this category, while those exporting to Mexico are most represented. As a result, exporters to Mexico are overrepresented among the companies using the FTA (+14 percentage points or pp), while exporters to South Africa are underrepresented (-8 pp).

Type of business: The orders of magnitude are mostly respected, although we note a small overrepresentation for producers (+5 pp) and an underrepresentation for service providers (-12 pp). The latter is not surprising, since many FTA do not have a chapter dealing with services. 3 out of 4 service companies export to Morocco, 1 to Mexico.

Size of the company: While the country and type of business does not seem a major indicator to learn whether a company uses the FTA or not, the size of the company clearly is. Only 23 companies with up to 50 employees say they use the FTA, compared to 35 with over 50 employees. This means a considerable overrepresentation for bigger companies (+32 pp) and a strong underrepresentation for smaller companies (-32 pp).

Stronger even, the smaller the company, the more likely to be underrepresented, the bigger the company, the more likely to be overrepresented. This is true for each of the categories 1-15 employees, 16-50 employees, 51-100 employees, 100-300 and more than 300 employees.

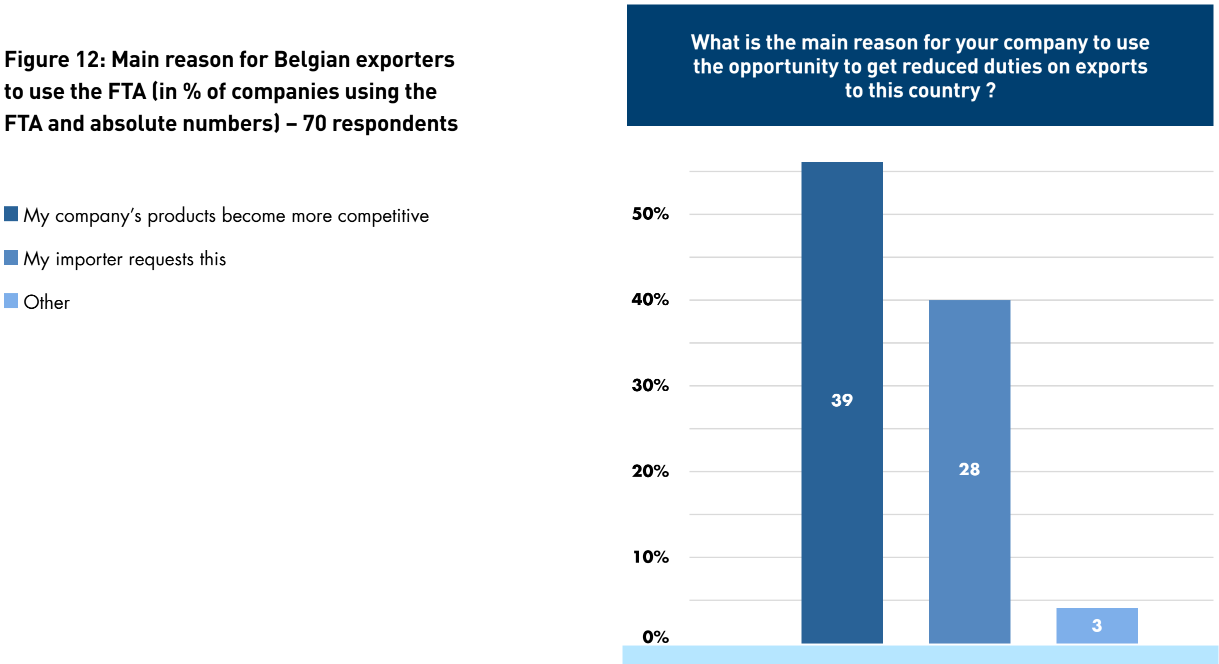
Figure 11: Belgian exporters using the FTAs, based on country, type and size (in absolute numbers)



Finding 9: Most companies use FTAs to improve their competitiveness.

A majority of the companies using the FTA (56%) do so because it makes their products more competitive. The remainder mention they use the FTAs because their client, the importer, asks them to do so. (Figure 12). This means that the utilisation of the FTAs is not necessarily import-driven, despite the fact that the importer receives the direct benefit.

Figure 12: Main reason for Belgian exporters to use the FTA (in % of companies using the FTA and absolute numbers) – 70 respondents



Other interesting results (more data needed to make a solid statement)

- Producers are most inclined to mention that the use of FTAs improves the competitiveness (60%). On the other side of the spectrum, only 33% (4 out of 12) wholesale traders mentioned they use FTAs to improve their competitiveness.

Finding 10:
Companies using FTAs perceive that this agreement is of decisive importance.

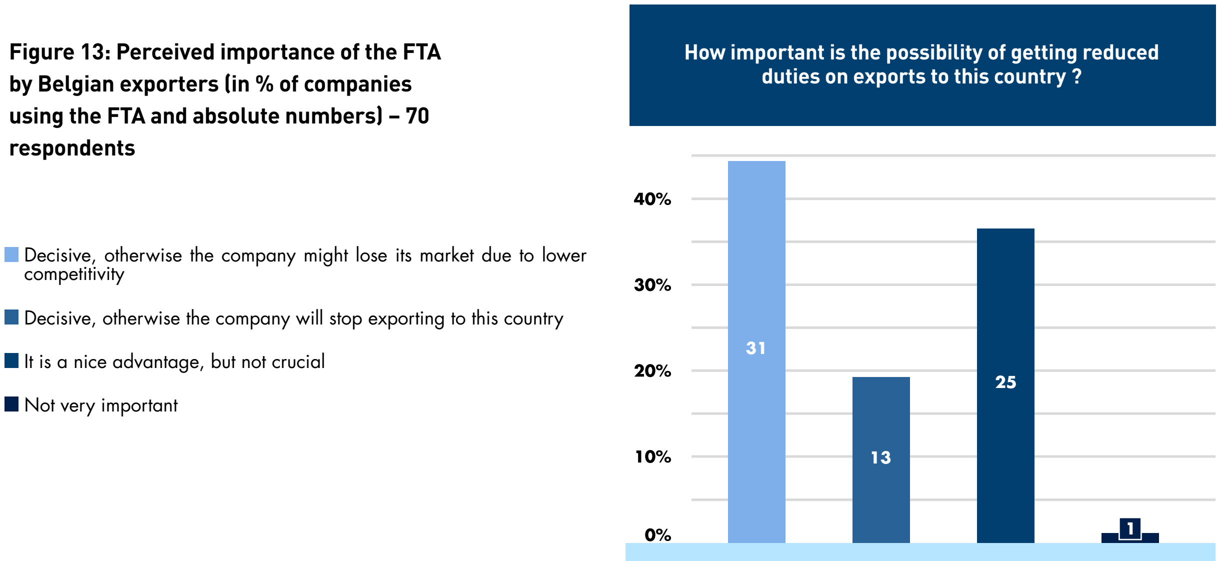
A significant part, almost two thirds of the companies using FTAs perceive that this agreement is of decisive importance (Figure 13). 19% of the companies noted that the FTA is even so important that without its existence, they would stop exporting to the country involved. An additional 44% of the companies fear they would lose market share without the Free Trade Agreement.

Even the vast majority of the 37% remaining companies still claim that the FTAs bring a good, albeit not crucial, advantage to their export.

Only one out of 70 respondents claimed that the FTA was not really important for its business.

It could be assumed that the companies responding earlier that they use FTAs to make their product more competitive are also more inclined to mention that the FTAs are decisive for their export. According to our survey, 2/3rd of the companies that use FTAs to have improved product competitiveness indicate that FTAs are decisive indeed. But also over half of the companies who primarily use FTAs because their importer asks for it, claim it to be decisive.

Figure 13: Perceived importance of the FTA by Belgian exporters (in % of companies using the FTA and absolute numbers) – 70 respondents



Other interesting results (more data needed to make a solid statement)

- Especially for the wholesale traders the FTAs appear to be crucial. Out of the 12 wholesale traders using the FTA, 6 indicate that they would stop exporting to the country in question without the FTA. Remarkably, only 4 producers make the same claim, despite the fact that the survey counts 3.5 times more producers than wholesale traders using the FTAs.

- The decisiveness of the FTAs is especially remarkable for companies exporting to South Africa (11/12). A quarter of these respondents even indicated that they would stop exporting to South Africa without the Free Trade Agreement.

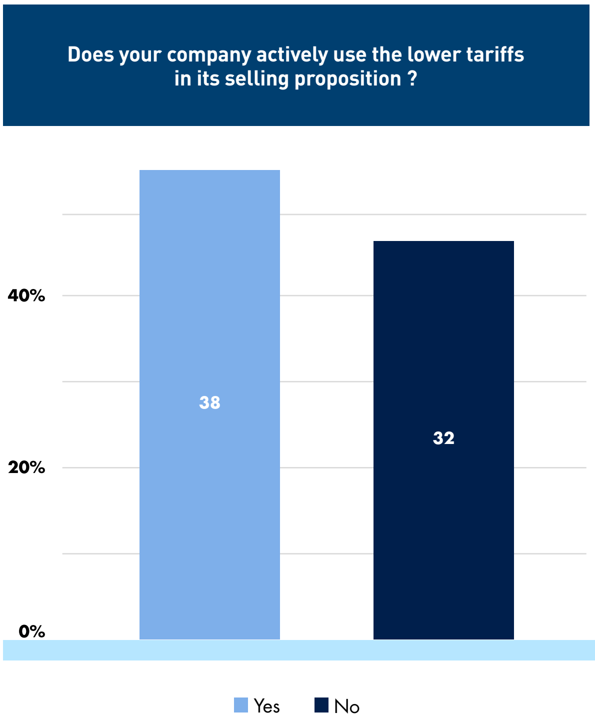
Finding 11:
Only half of the companies mention the lower duties in the selling proposition.

About half of the companies using the FTAs mention that they actively use the opportunity to have lower import duties in their selling proposition (54%), while the other half does not (46%). (Figure 14)

The companies that previously reported they would stop exporting without an FTA are the most enthusiastic users of the Free Trade Agreement in their selling proposition. The companies that use the FTA because their importer requests it and those who not consider the FTA to be decisive for their exports are least inclined to include it actively in their selling proposition.

The company size may have an impact too. While 57% of the 50 companies with over 50 employees are using the FTA in their selling proposition, this is only true for a minority of companies with less employees (48%).

Figure 14: Belgian exporters actively promoting the benefits of the FTA in their selling proposition (in % of companies using the FTA and absolute numbers) – 70 respondents



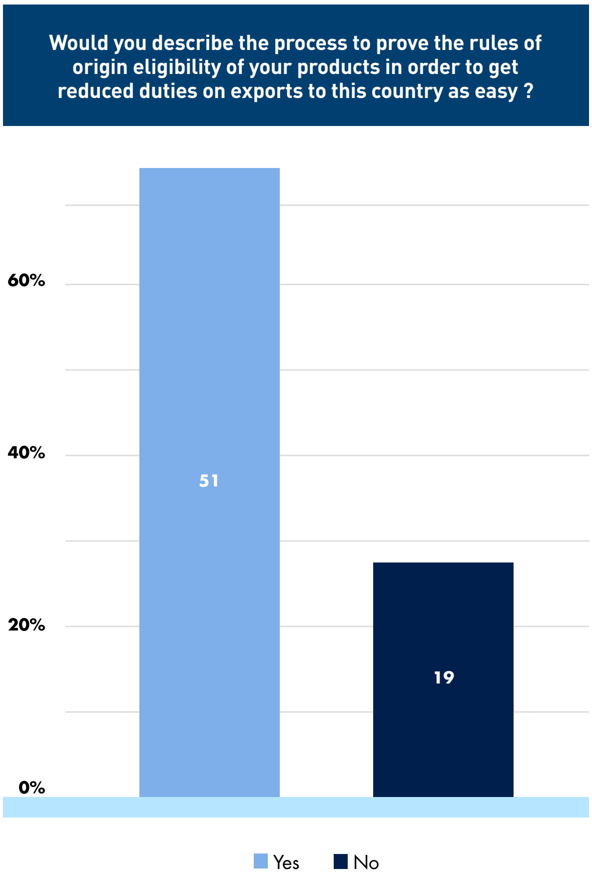
Other interesting results (more data needed to make a solid statement)

- Focusing on our five key countries we see that the companies exporting to Egypt, Mexico and South Africa use the FTA in their selling proposition in about 2/3rd of the cases. It is less common for exporters to Israel (6/14 or 43%) and Morocco (4/15 or 27%).

Finding 12:
Proving the rules of origin is considered easy by Belgian exporters...

Most of the exporters using the FTA indicate that it is easy for them to prove the Rules of Origin. This is the case for as much as 73%. (Figure 15)
Even though the result is rather outspoken, the size of a company once more seems to have an impact on how difficult or easy the procedure is perceived in the sense that the largest companies are less likely to report problems than their smaller peers.

Figure 15: Belgian exporters describing the process of proving the Rules of Origin eligibility as easy or difficult (in % of companies using the FTA and absolute numbers) – 70 respondents



Other interesting results (more data needed to make a solid statement)

- While companies exporting to Egypt, Israel and Mexico have a similar experience when proving the Rules of Origin (respectively 69%, 75% and 73% find it easy), exporters to South Africa face remarkably less problems (12/12 companies or 100% find it easy). Exporters to Israel (7/14 or 50%) struggle the most.

Finding 13:
... with a dedicated team for proving the Rules of Origin

Exporters indicating that proving the Rules of Origin was easy could select different reasons to back this statement. 57% of the respondents explained that they have a dedicated team to deal with the necessary paperwork and can therefore manage. (Figure 16)

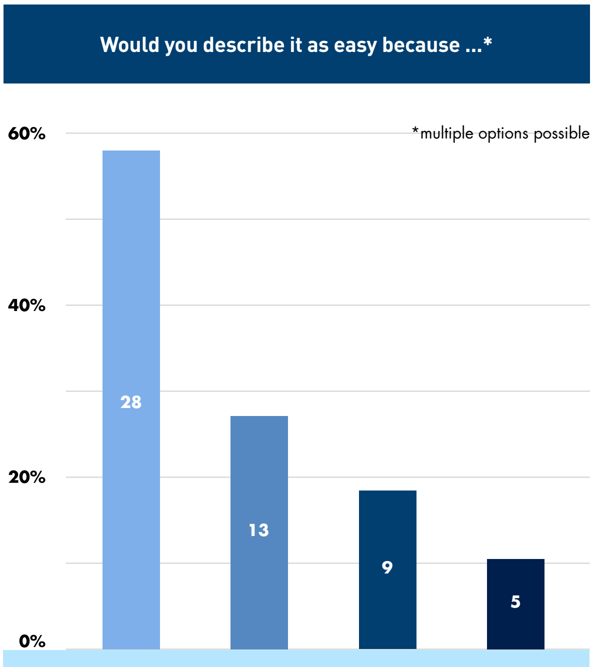
Another 27% of the companies report that the procedure is easy because the products are made in just one country while 18% explains that their products have a short value chain, which is related.

A minority of 5 companies points to their IT system, which facilitates calculations on the origin of the export product.

Participating companies with over 100 employees indicate more often that they have a professional team, while for the companies with less than 100 employees the argument of 'products made in only one country' or 'short value chain' prevails.

Figure 16: Reasons to describe the process of proving the Rules of Origin eligibility as easy (in % of companies describing it as easy and absolute numbers) – 49 respondents, multiple answers possible

- My company has a dedicated and experienced team for this purpose
- Our products are made in 1 country only
- Our products do not have a long value chain
- My company uses an IT system that facilitates calculations on the origin of the export product



Other interesting results (more data needed to make a solid statement)

- Out of the 19 companies that use the FTA but mentioned that proving the Rules of Origin is difficult, 12 (64%) say that the procedure is difficult because of the administrative formalities. One could assume that this would be mostly smaller companies without a dedicated team at their disposal, but five out of those 12 companies have more than 100 employees.

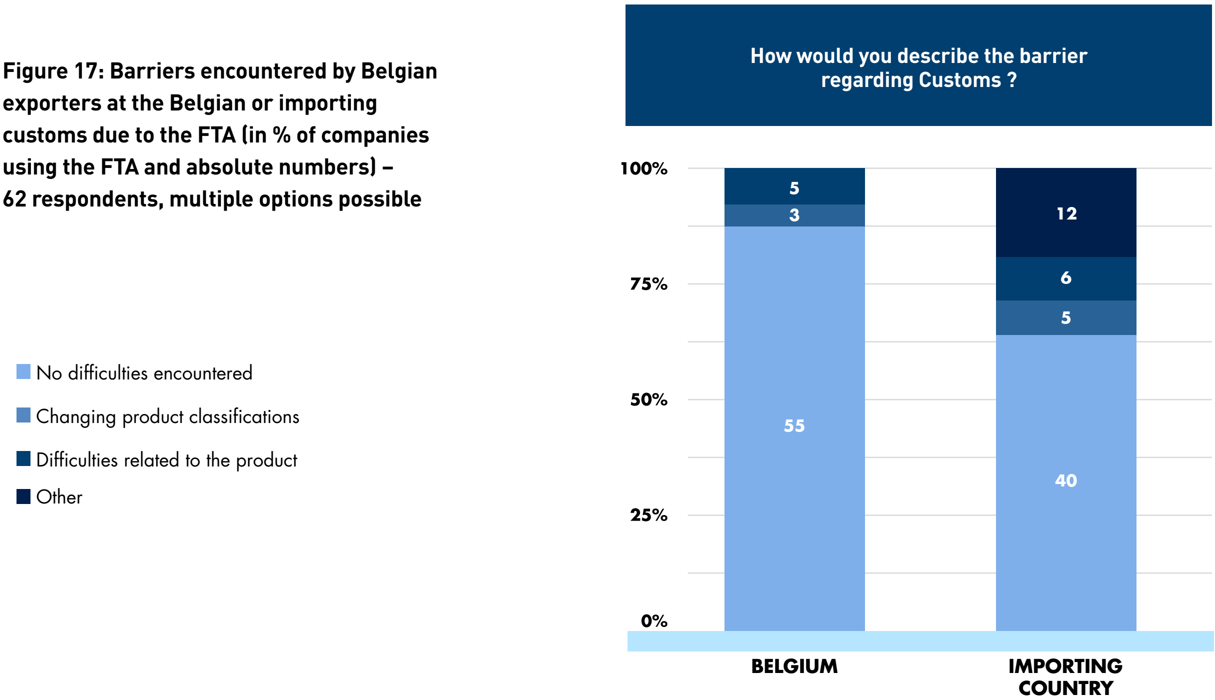
Finding 14:
Customs procedures rarely cause concern

A large majority of the exporters (89%) pass the Belgian customs without any problems. At the customs of the importing country, more problems were experienced. (Figure 17)

In neither of the cases a statistically relevant issue came forward. The most often used reasons were "Changing product classification' and 'Problems specifically related to the product', as well as "Other" which shows that the problems are often very niche rather than related with the FTA as such.

Some companies indicated that the importing customs are not always up to date with the latest directives or have insufficient knowledge of the FTA. 3 companies report that corruption is a main reason and that customs officers in the importing country want to do 'business'.

Figure 17: Barriers encountered by Belgian exporters at the Belgian or importing customs due to the FTA (in % of companies using the FTA and absolute numbers) – 62 respondents, multiple options possible



Other interesting results (more data needed to make a solid statement)

- Considerable differences can be observed between the five countries to which Belgian companies export. Once again, South Africa comes out very positively. Ten out of the eleven participating companies have no difficulties at the border. In Mexico, however, it is less positive. Only less than half (6/14) of the companies pass customs without any problems.

- Especially the largest companies with more than 300 employees report problems at the border. Less than half of the 16 companies experience no problems. Companies with less than 300 employees experience far fewer problems at the borders, on average this is around 70%.

2.2 COMPANIES NOT USING THE FTAs

A profile of exporters not using the FTAs

A total of 185 companies declared not to use the FTAs. Of these exporters, 50% (92 companies) provided background information that allows us to differentiate on elements such as type of business and size of the company.

Country: Most companies not using the FTAs export to South Africa, Israel and Egypt (43, 43 and 41 respondents respectively), followed by Morocco (34 respondents) and Mexico (24 respondents). This means most countries are in line with the expectations, except for Mexico with an underrepresentation (-15 pp). This does not come as a surprise with Belgian exporters to Mexico using the FTA being overrepresented.

Type of business: Among the exporters not using the FTA, we mainly find producers (61 respondents), followed by service providers (17 respondents) and wholesale traders (14 respondents). This means that a considerable overrepresentation is seen for service providers (+31 pp). As mentioned earlier, this is not surprising since many FTAs do not have a chapter dealing with services.

Size of the company: Small companies form the majority in the category of exporters not using the FTA (69 respondents with up to 50 employees versus 23 respondents with over 50 employees). This means that smaller companies are overrepresented (+18 pp), while companies with over 50 employees are underrepresented.

The difference in over- and underrepresentation is not as important as the difference noted when we looked at the utilisation of FTA. This means that proportionally a significant part of the smaller companies not using the FTAs exports indirectly by using a third party such as a shipping agent or freight forwarder for the related paperwork.

Figure 18: Belgian exporters not using the FTAs, based on country, type and size (in absolute numbers)

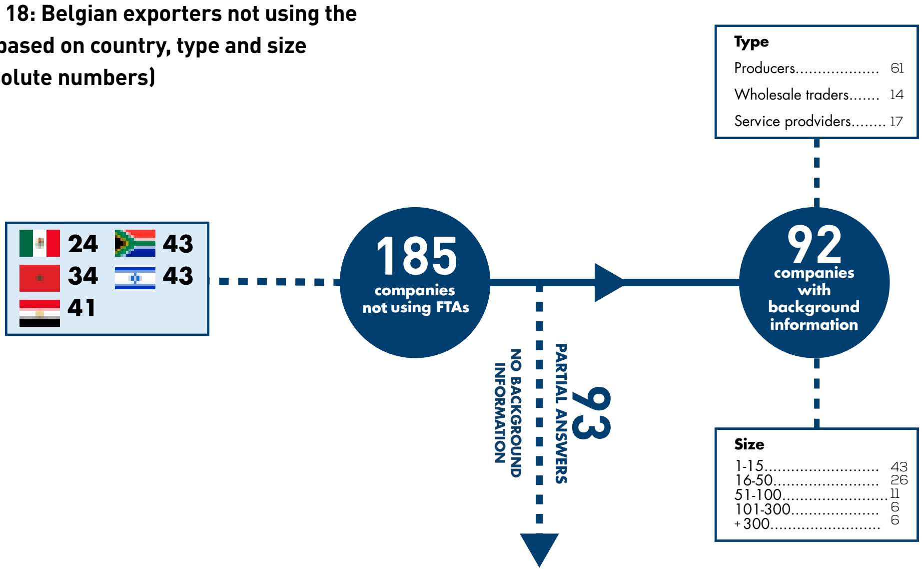
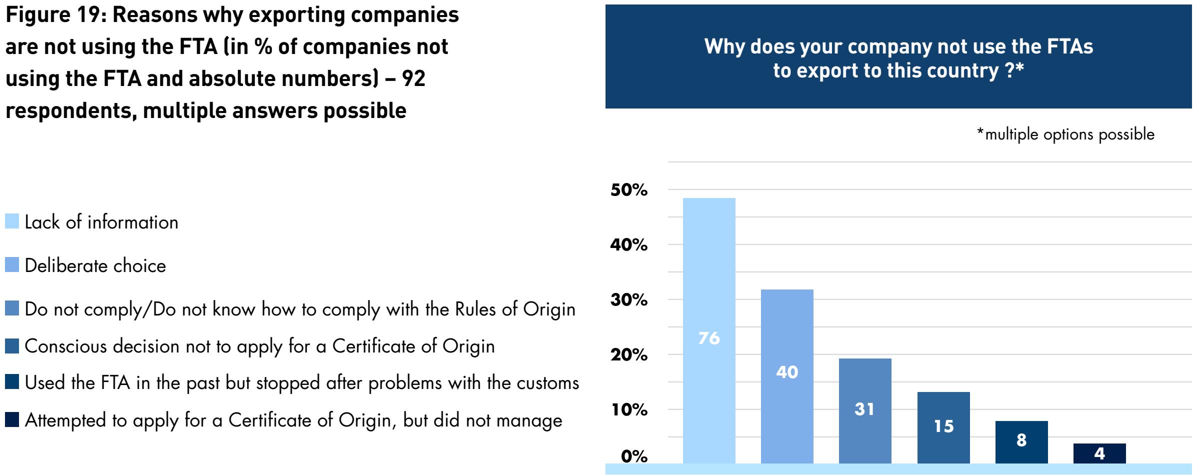


Figure 19: Reasons why exporting companies are not using the FTA (in % of companies not using the FTA and absolute numbers) – 92 respondents, multiple answers possible



Finding 15:
Foremost, exporters do not use the reduced duties due to a lack of information.

About half of the exporters that could make their products more competitive by using an FTA but are not doing so indicate that they lack proper information, which makes it by far the most quoted reason. (Figure 19)

Earlier we saw that the bigger the company, the more likely it will use the FTA. But among the exporters not using the FTAs, about half are struggling to find information no matter the size (54% of the companies with up to 50 employees and 48% with over 50 employees).

Interestingly, a lack of information is often not the only reason for a company not to use the FTA. In almost half of the cases, this reason is combined with one or more other explanations. In most of the cases (25/76), with the finding that they could easily apply for a Certificate of Origin but decided not to do so.

This frequent combination could be interpreted in two ways. Companies may believe they could export under the FTA but are not genuinely interested to do so and therefore do not look for information. Or they did look for information but did not find what they needed and therefore decided not to proceed on this subject.

Other interesting results (more data needed to make a solid statement)

- A minority of service companies say they lack information (24%, or 4 on 17 companies). This is less than half the percentage of producers and wholesale traders claiming this reason.

Finding 16:
A large number of Belgian companies make a deliberate choice not to export via a Free Trade Agreement…

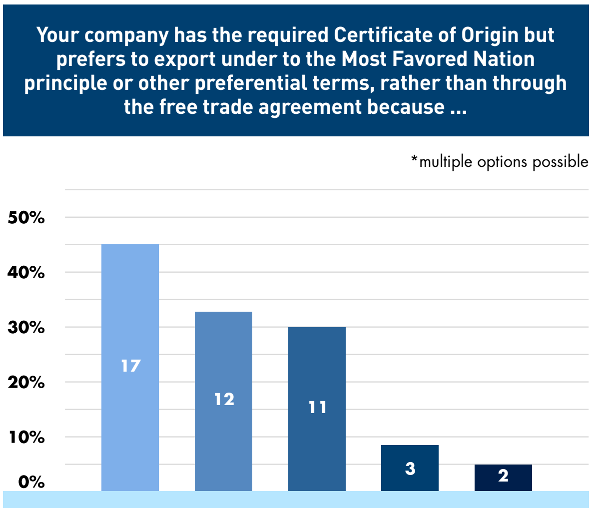
Of the exporters not using the FTAs, about one third or 40 out of 125 companies mention to have the required certificate of origin or say they could easily obtain it, but prefer to export under to the" Most-Favoured-Nation" principle, rather than through the FTA. (Figure 19)

Almost half of the 37 companies that deliberately do not use the FTAs and gave further explanation said this is the case because their importer does not ask for it. This way, FTAs turn out to be relatively import-driven after all. Another third (12/37) refrained because they fear potential customs problems. Other motives such as 'additional administrative problems' or 'another preferential zone' were hardly selected by the companies, with only 3 and 2 companies claiming this to be a reason (Figure 20).

Producers in our survey are far more likely to back this as a reason not to use the FTA. This is the case for 40% among them, while for service providers and wholesale traders, this stands with 14% and 12% respectively much lower.

No less than 63% (25 of the 40 companies) stipulated that lacking information on how to use the FTAs is a second reason for continuing to export under MFN. This seems an odd combination at first sight, since deliberately choosing not to export implies that more information would not make a difference.

Figure 20: Reasons for deliberately not using the FTA (in % of companies deliberately not using the FTA and absolute numbers) – 40 respondents, multiple answers possible



Other interesting results (more data needed to make a solid statement)

- This reason is particularly pertinent for companies that export to Morocco. As many as 43% (12 out of 28 companies) indicate that they deliberately choose not to use the FTA in place. Exporters to Morocco fear more than exporters to any other country problems at the border.

- Despite big exporting companies being an overall minority (25% or 23 out of 92 companies) among the exporters not using an FTA, they are barely a minority when it comes to deliberately not using the FTA. More than half (13/23) of the companies with over 50 employees say not using the FTA is a deliberate choice, while this is the case for only less than a quarter (16/70) companies with less than 50 employees.

Finding 17:
About 1 out of 5 companies not using the FTA does not comply with the Rules of Origin or does not know how to do this...

The third most common reason for companies not to use the Free Trade Agreement is either not meeting the Rules of Origin or not knowing how to comply. This is the case for 19% (31 out of 160 companies), which is becoming statistically less relevant. (Figure 19)

Over half of the 24 companies that indicated this reason and gave further explanation believe their product is too complex/specific, while only 6 companies directly say they do not succeed to apply for a Rules of Origin certificate. Lacking an IT system and not obtaining certificates because a lack of data coming from subcontractors hardly seems to be a reason.

About 80% of the exporters not using the FTA did not agree with the statement. For producers this stands at 90%, for wholesalers even at 93%. This contrasts sharply with the service providers, where only 53% of the exporters say this is not a reason. Therefore, it is 6 to 7 times more common among service providers to say that not using the FTA originates with problems related to the Rules of Origin certificate or not knowing how to do this. The process is, if existent, very different indeed for products and services.

Finding 18:
Apart from the three reasons mentioned above there are, to a much lesser extent, other reasons why exporters do not make use of the FTAs.

- Only 13% (15 out of 113 companies) consciously decided not to obtain the certificate of origin. The arguments put forward for this are very diverse and specific.
- A small minority of 8% (8/105) indicate that they used the FTA in the past but stopped after problems with the customs of the importing country. 4 out of 17 service companies cited this reason, while producers encounter this problem remarkably less (2 out of 57). Small companies and exporters to Morocco are overrepresented.
- The reason that the process of applying for a Certification of Origin would be too difficult hardly matters. Only 4 out of 109 companies give this as a reason.

2.3. COMPANIES USING A SHIPPING AGENT

A profile of exporters using shipping agents

A total of 107 companies declared to use a shipping agent. Of these exporters, 57% (61 companies) provided background information that allows us to differentiate on elements such as type of business and size of the company. (Figure 21) They form a considerably larger group than the 80 exporters that make sure themselves that the paperwork is handled, including the needed documents to comply with the FTA.

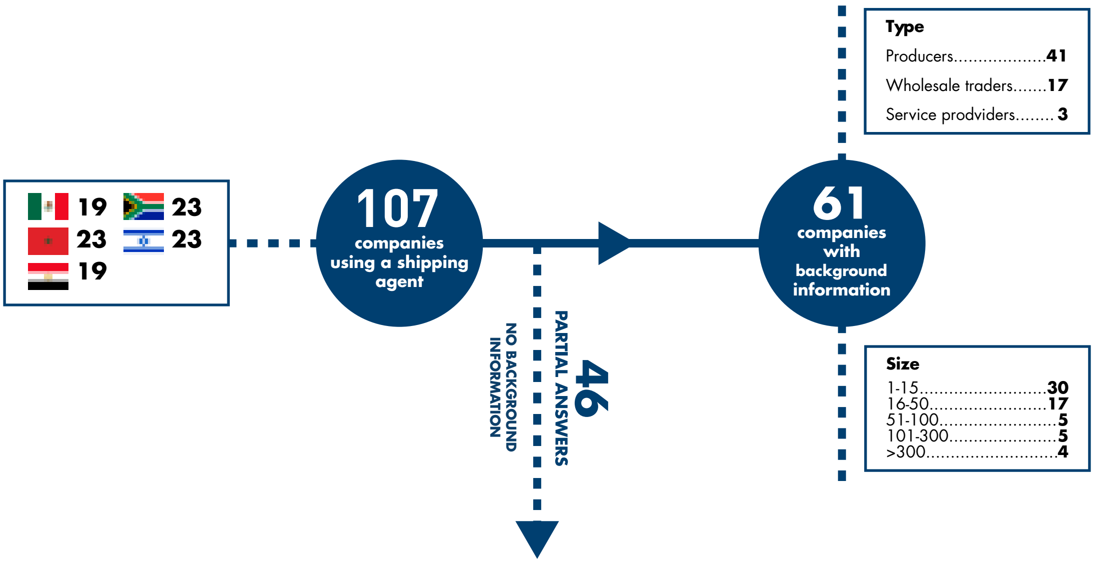
Wholesale providers as well as smaller companies are overrepresented. The reason for using a shipping agent or freight forwarder often coincides with the fact that it is deemed cheaper than to take care of the export themselves. Freight forwarders more often have better contacts and are therefore able to conclude better deals, according to the exporters.

Country: As before, we see a balance between the 5 selected countries, with an equal amount of respondents from Israel, Morocco and South Africa (23) and from Mexico and Egypt (19). This means there is no relevant over- or underrepresentation to be found.

Type of business: Among the exporters using a shipping agent or freight forwarder, we see 41 producers, 17 wholesale traders and 3 service providers. The fact that service providers are underrepresented is not surprising due to the very nature of the business. The wholesale traders on their turn are overrepresented (+14 pp).

Size of the company: The size of companies may impact the use of shipping agents. 47 respondents of companies with up to 50 employees use shipping agents while 14 companies with over 50 employees do so. This means a considerable over- and underrepresentation respectively (25pp).

Figure 21: Belgian exporters using a shipping agent, based on country, type and size (in absolute numbers)



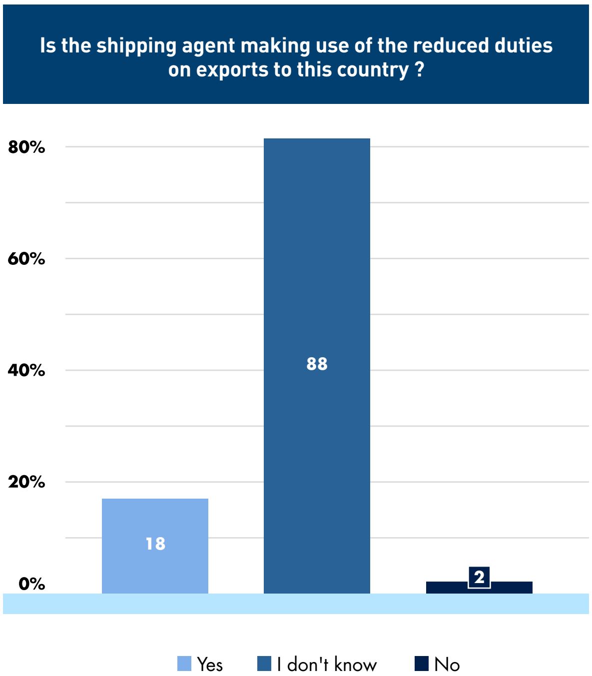
Finding 19:
The vast majority of Belgian exporters does not know whether their shipping agent uses the FTA.

A vast majority (81%) of companies relying on a shipping agent or freight forwarder does not know whether they are actually making use of the FTA or not. (Figure 22)

Only 17% (18/108) is aware that their shipping agent makes use of the FTA. It is worth noting that 11 out of those 18 companies have explicitly instructed their freight forwarder to do so.

A mere 2% (2/108) knows with certainty that their shipping agent is not using the FTA.

Figure 22: Belgian exporters knowing whether their shipping agent uses the FTA (in % of companies using shipping agents and absolute numbers) – 108 respondents



Other interesting results (more data needed to make a solid statement)

- With 33% versus 16%, the wholesale traders in this survey are more likely to be aware that their shipping agents use Free Trade Agreements compared to producers. This bigger focus on the FTA also reflected earlier in this survey, where it was noted that FTA are deemed crucial and even the key reason for exporting for many wholesale traders. The reason may be that while the making of a product is central for producers, selling a product is central for wholesale traders. Another reason may be that the margins for wholesale traders are smaller.

- Remarkably, the smallest companies, with less than 15 employees, are more likely to be informed whether the FTA is used. (8/30)

Finding 20:
About 2 out of 3 companies that do not know whether their shipping agent uses the FTA would like them to do so. A similar number of companies say they would use the FTA if they would take care of the export documents themselves.

63% (53 out of 84) of the companies report that they believe it would be better for their company if the freight forwarder would use the FTA (Figure 23).

Two-thirds of the companies would probably make use of FTAs if they would handle the export procedure themselves (44/66). (Figure 24)

In our survey, the wholesale traders would be the most convinced to use the FTA (88%). For the producers this stands at 60%.

Figure 23: Belgian exporters stating it would be better if their shipping agent would use the FTA (in % of companies using shipping agents and absolute numbers) – 84 respondents

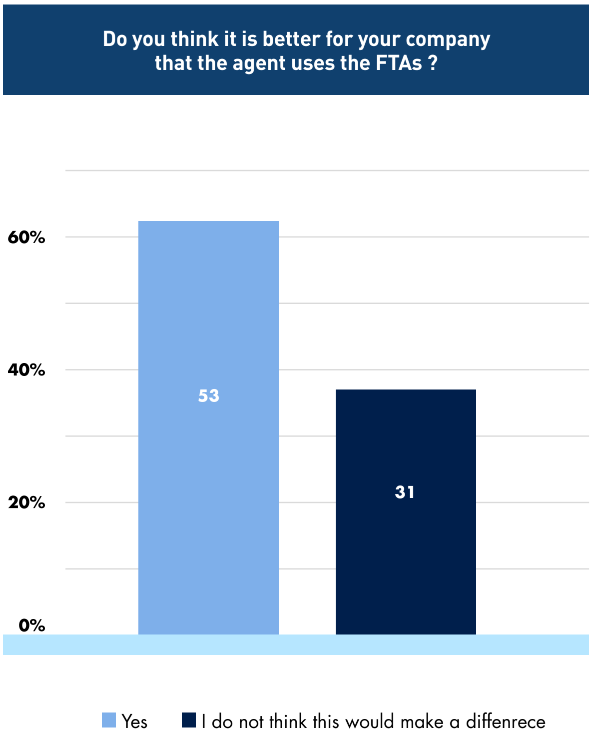
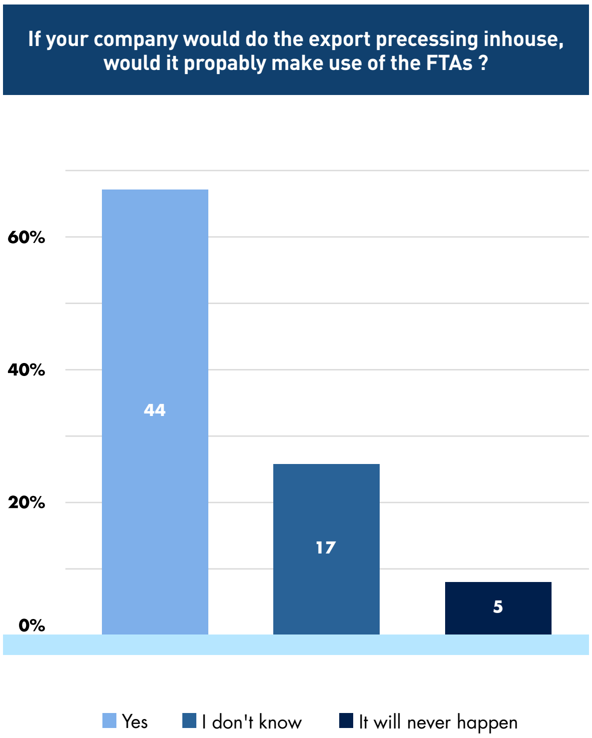


Figure 24: Belgian exporters stating they would use the FTA it they would export directly (in % of companies using shipping agents and absolute numbers) – 84 respondents



2.4: TAKEAWAYS AND POLICY SUGGESTIONS

Chapter 2.1

The majority of exporters use the FTA to improve their competitivity. The bulk of the companies perceive that having access to the FTA is of decisive importance. To some companies, often wholesalers, the FTA is even the reason why they export. Nevertheless, only half of the exporters, and not even half of the smaller companies, mention the FTA in their selling proposition.

In part 1 we found that most companies "use" the FTA, but this outcome is still more positive than anticipated. It can be seen as encouragement for our institutional partners. Tips could be provided to companies on how to pitch the benefits of the FTA to their clients.

In order to be able to use an FTA, companies need to prove the Rules of Origin. This process seems to be rather easy according to 3/4th of the companies. Having a dedicated staff to process the administrative formalities is key for bigger firms, while smaller firms often manage as well because their value chain is shorter, which makes the eligibility easier to prove. At the same time, it is possible that smaller firms do not necessarily have shorter value chains than bigger companies, but simply not a dedicated team. Even though most exporters do not encounter problems at the customs when exporting under the FTA regime, specific company-related issues may rise from time to time, mostly with the customs of the importing country.

The high success rate of companies to prove the Rules of Origin can be used as a "selling point" and reassurance for our institutional partners wanting to inspire companies to use the FTAs. It goes against what is commonly assumed. Problems at the border do not seem to be occurring often neither.

Chapter 2.2

The main reason for not using the FTA is clear: half of the companies say they lack the needed information.

The silver lining is that this finding implicates that nothing is wrong with the FTA in itself, but rather that more support could lead to better results. A similar conclusion was drawn in part 1, as for most of the combinations with the highest Foregone Duty Savings, the EU-27 showed that better results were possible.

One third of the exporters not using the FTA say that it is a deliberate choice not to do so, making this the second most quoted reason. It is even the foremost reason for companies with over 50 employees. This is mainly attributed to disinterest from the importer or fear for (potential) customs problems. Interestingly, this is also a reason for 1/3rd of the companies mentioning they lack information.

This finding brings some perspective to the idea that companies need more information to act "rationally" or "in their best interest". An advantage on paper is not necessarily an advantage on the ground. For the companies claiming that not using the FTA is both a deliberate choice and due to a lack of information, it could be interesting to find out whether they did not find the information they required, the information did not come to them, or it did but they did not take interest in it.

It will also help explain why a Duty Savings Rate of 100% is simply not realistic.

If our institutional partners would like to convince those companies, they can refer to chapter 2.1 where it was found that fear for (potential) customs problems is not necessarily justified. Companies waiting for the importer to take the initiative may be persuaded by the perceived advantages.

Thirdly, about 1 out of 5 companies do not comply with the Rules of Origin or do not know how to comply. This is mostly because they think their product is too complex or too specific. Only 6 companies clearly state that their products do not obtain origin status. Despite being the third most common reason overall, this is by far the most important issue for service providers.

The overrepresentation of service providers is not surprising as in many FTAs the service component is not taken into consideration. It shows that the demand for more agreements in the field of services is desirable.

Lastly, very few companies that tried to export under the FTA did not succeed in this effort. Only 4% of the companies attempting to apply for a Certificate of origin did not manage to do so. A mere 8% of companies previously exported under the FTA regime but stopped doing so after encountering problems with the customs.

This strengthens findings earlier in 2.1 that the process to prove eligibility does not seem insurmountable. Similarly, the observation in 2.1 that problems at the customs barely cause reason for concern seems to be confirmed.

Chapter 2.3

Many Belgian exporters work with a shipping agent, and the vast majority of them does not know whether their shipping agent uses the FTA or not. Nevertheless, the majority of exporters would like them to do so and two thirds indicate they would use the FTA if they would export directly.

According to this survey, shipping agents and freight forwarders play a crucial role for Belgian exporting companies. Certainly smaller companies like to work with them because they deem it better to outsource non-core activities.

Considering the importance of shipping agents and the information gap on whether the shipping agents do or do not export products of their clients under the FTA, this may be a very interesting topic for further research. Encouraging shipping agents to explain the advantages of FTAs to their clients may be low hanging fruit.

The Belgian based shipping agents, which are known for their high quality standards, may be inclined to do so based on the strong message of their clients, stating that they would like their agent to look after this.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ANNEX

ANNEX

Annex 1.1: list of agreements based on https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/

Stabilisation and Association Agreement

Albania	In force since 2009
Bosnia and Herzegovina	In force since 2015
Kosovo	In force since 2016
Montenegro	In force since 2010
North-Macedonia	In force since 2004
Serbia	In force since 2013

Comprehensive Economic and Trade Agreement (CETA)

Canada	Provisionally applied since 2017

Association Agreement and Additional Protocol

Chile	In force since 2003, negotiations on modernisation began in 2017, on hold since 2019

Trade Agreement

Colobia	Provisionally applied since 2013
Ecuador	
Peru	

Association Agreement with a strong trade component

Costa Rica	Provisionally applied since 2013
El Salvador	
Guatemala	
Honduras	
Nicaragua	
Panama	

Association Agreement - Euro-Mediterranean Agreement

Israel	In force since 2000
Egypt	In force since 2004
Lebanon	In force since 2006
Morocco	In force since 2000, negotiations on modernisation began in 2013, on hold since 2014
Algeria	In force since 2005

Economic Partnership Agreement -Eastern and Southern Africa States

Madagascar	Provisionally applied since 2012, negotiations on modernisation began in 2019

Economic Partnership Agreement - SADC EPA States

South Africa	Provisionnaly applied since 2016

Global Agreement	
Mexico	In force since 2000, negotiations on modernisation began in 2016, 'Agreement in principle' on the trade part reached in 2018
Japan	In force since 2019
Free Trade Agreement	
South Korea	In force since 2015
Agreement	
Switzerland	In force since 1973
Customs Union	
Turkey	In force since 1995
Deep and Comprehensive Free Trade Agreement	
Ukraine	Provisionally applied since 2016

Annex 1.2: Methodology and inconsistencies in the data

The questionnaire was sent with Surveymonkey to companies exporting or interested to export to the 5 countries. Although answering the questions of the survey implies that the respondent is engaged in export to this country, this is not necessarily the case.

Each participant to the survey could define its company as a producer, service provider or wholesaler. This distinction was not made by the author. The participation of service providers brings a discrepancy compared to the results of part 1, where only goods were taking into consideration. Even though certain FTAs have a chapter on services, the content addressed here is different from the discussion on tariff elimination. Services most represented are transport, consultancy and IT.

The 372 companies had the possibility to pick one of the 4 options: yes, no, no but, we use a shipping agent. However, we found that 8 companies filled in 2 options. This may be due to the fact that several companies participated to different surveys.

More specifically, one company, an exporter to Morocco, answered "yes" to the question whether it uses the FTA, but also completed the questions that appeared only for companies stating "no". Similarly, 1 company, an exporter to Egypt, answered "no" and, after completing those questions, also completed the questions for those that answered "yes" to the question whether they use the FTA.

Additionally, 4 companies answered "yes" and subsequently filled in "we use a shipping agent" and 2 companies answered "no" and continued by filling in the questions of "we use a shipping agent".

The disturbance is most visible in the category "we use a shipping agent". According to the data, 107 companies use a shipping agent. Of those 107 companies, 5 dropped out before they answered the follow up question. But the 6 aforementioned companies did answer the follow up, although in the data they were considered as companies using or not using the FTA. This means that although 107 companies use a shipping agent, we notice 108 answers at a follow up question.

Annex 1.3: Survey

Is your company making use of the reduced import duties for your clients under the Free Trade Agreement?

Questions for companies making use of FTAs

- What is the main reason for you company to use the opportunity to get reduced duties on exports to this country ?
- How important is the possibility of getting reduced duties on exports to this country ?
- Does your company actively use the lower tariffs in its selling proposition ?
- Would you describe the process to prove the rules of origin eligibility of your products in order to get reduced duties on exports to this country as easy or difficult ?
  - *If easy: Would you describe it as easy because... (multiple options possible)*
  - *If difficult: Would you describe it as difficult because... (multiple options possible)*
- How would you describe the barrier regarding this importing country Customs ? (multiple options possible)
- How would you describe the barrier regarding Belgian Customs ? (multiple options possible)
- Besides the reduced export duties, is your company making use of the Free Trade Agreement to this country in any other way ? (multiple options possible)

Questions for companies not making use of FTAs

- Your company is not making use of the reduced duties on exports to this country because it lacks information on how to do this ?
- Your company is not making use of the reduced duties on exports to this country because it cannot meet or does not know how to meet the Rules of Origin ?
  - *If yes: Your company cannot meet the Rules of Origin because... (multiple options possible)*
- Your company has the required certificate of origin or can easily obtain it, but prefers to export under the" Most Favored Nation" principle or other preferential terms, rather than through the free trade agreement ?
  - *If yes: Your company prefers to export under to the" Most Favored Nation" principle or other preferential terms, rather than through the free trade agreement because ? (multiple options possible)*
- Has your company consciously decided not to obtain the certificate of origin ?
  - *If yes: Did your company consciously decide not to obtain the certificate of origin because ... (multiple options possible)*
- Did your company try to obtain the certificate of origin but did not succeed ?
  - *If yes: Please describe the problems you encountered.*
- Your company tried but you encountered problems with the importing country administration?
  - *If yes: Please describe the problems you encountered.*

Questions for companies using shipping agents

- Is the shipping agent making use of the reduced duties on exports to this country ?
  - *If yes: Did your company explicitly ask to make use of the reduced duties on exports to this country ?*
  - *If no: Please describe why not*
- Do you think it is better for your company that the agent uses the FTA ?
- Why is your company currently working with a shipping agent to this country ? (multiple options possible)
- My company would consider doing the export processing inhouse if it had more support from... (multiple options possible)
- If your company would do the export processing inhouse, would it probably make use of the FTA ?

Annex 1.4: Tables and Figures

Tables

Figures

Annex 1.4: Tables and Figures

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