



The Use of the EU's Free Trade Agreements

Exporter and Importer Utilization
of Preferential Tariffs

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

2018



About the National Board of Trade

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

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

Acknowledgements

The authors of this report are Jonas Kasteng, National Board of Trade Sweden, and Stefano Inama, UNCTAD. It has been possible to produce this report thanks to the facilitation of data on the EU's 'preference utilization rates', as well as valuable comments and suggestions, by Lars Nilsson at the European Commission. The data from different sources benefits from the work by Wojciech Stawowy at UNCTAD. The report also benefits from valuable comments and suggestions by Erik Dahlberg, Henrik Isakson, Kristina Olofsson, Camilla Prawitz, Christopher Wingård and Patrik Tingvall at the National Board of Trade Sweden.

Preface

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

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

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

Stockholm, January 2018



Anna Stelling
Director-General
National Board of Trade Sweden

Geneva, January 2018



Mukhisa Kituyi
Secretary-General
UNCTAD

Executive Summary

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

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

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

The main findings from the analysis are the following:

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

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

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

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

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Introduction

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

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

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

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



The following questions are addressed in the analysis:

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

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

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

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

Limitations

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

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

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

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

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

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

The data on preference utilization in this report is based on import data that are collected and processed by the different parties concerned. The existence of different sources for the import data might limit the comparability between the partner countries and the EU due to possible differences in the quality of the data and the different methods possibly used. In addition, the EU's preference utilization indicators on value, i.e. the values of utilized and non-utilized preferences, as well as the values of preferential duty savings and costs, are calculated based on the EU's 'preference utilization rates' and constitute, accordingly, approximations. Furthermore, with the only exception of Switzerland, specific duties have not been converted to *ad valorem* equiva-

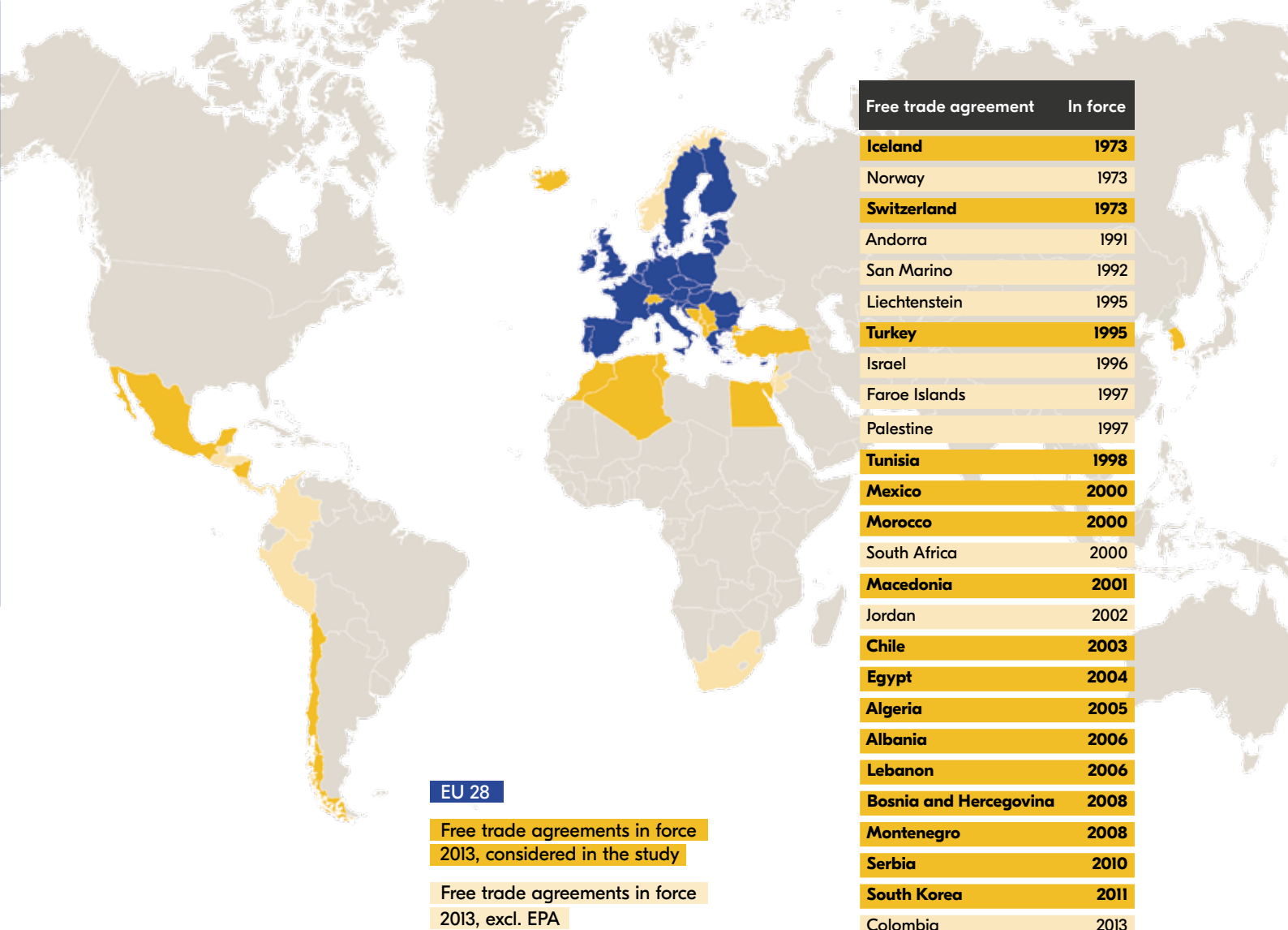


Figure 1: The EU's free trade agreements in force in 2013 and where data on preference utilization are available for both parties (excl. the European Partnership Agreements, EPA)

Source: Elaborated by the National Board of Trade Sweden

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

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

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

Important concepts

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

Several interrelated indicators and/or measures on preference utilization are used in this report.

The main indicators are:

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

The indicator ‘preference utilization rate’ is based on:

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

The indicator ‘preference savings rate’ is based on:

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

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

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

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

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

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

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

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

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

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

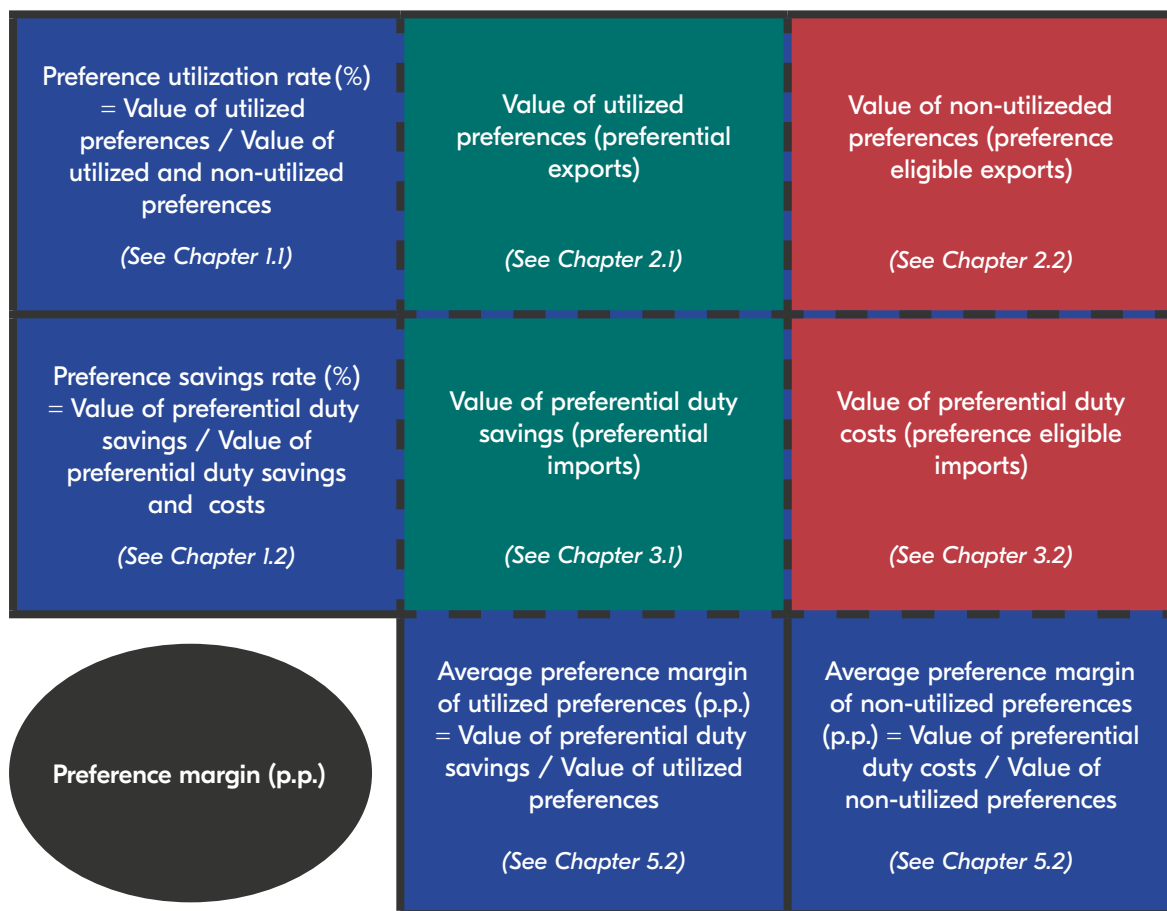
Box 1

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

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

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

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



Source: Elaborated by the National Board of Trade Sweden

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

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

preferential duty savings’ as a share of the ‘value of utilized preferences’, i.e. the first vertical level in the matrix.

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

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

1

The use of the EU's free trade agreements

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

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

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

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

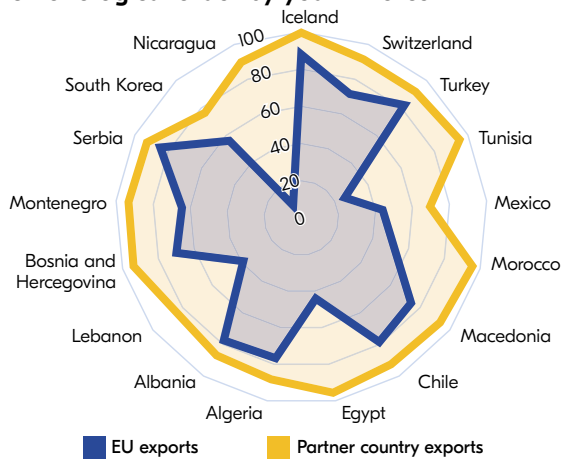
Question: What is the use of the EU's free trade agreements by EU and partner country exporters and importers?

1.1 The exporter perspective: 'Preference utilization rates'

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

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

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



Source: Based on European Commission and Eurostat data

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

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

When the ‘preference utilization rates’ for the EU’s free trade agreements are presented in chronological order by year in force, there seems to be a lack of correlation between the time the

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

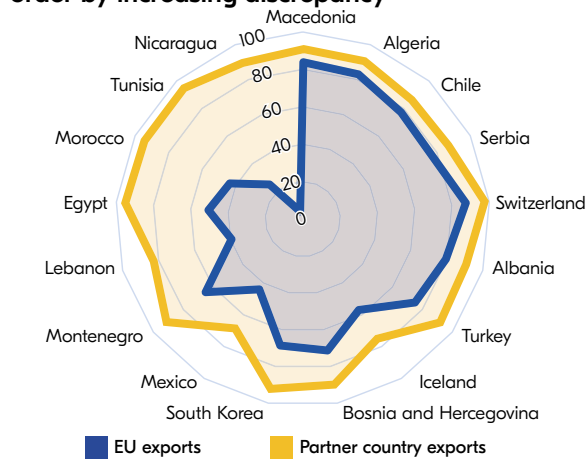
free trade agreements entered force and the ‘preference utilization rates’ of the parties. An analysis of the discrepancies in the ‘preference utilization rates’ between the parties might provide a complementary picture.

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

1.2 The importer perspective: ‘Preference savings rates’

In order to analyse the utilization of preferences in the EU’s free trade agreements from an importer perspective, the indicator ‘preference savings rate’ is used. The indicator ‘preference savings rate’ is calculated as the value of prefer-

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



Source: Based on European Commission and Eurostat data

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

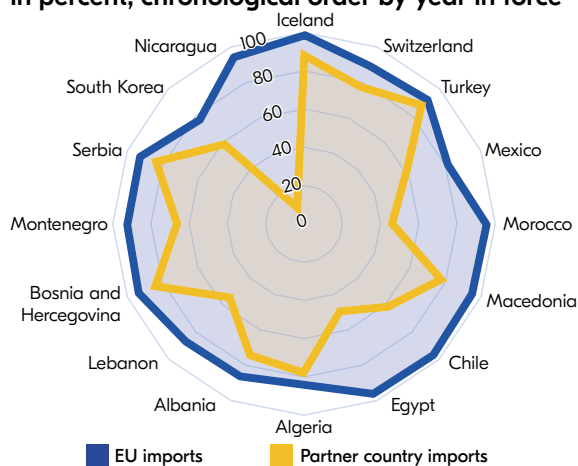
The average total 'preference savings rate' (2009-2013) of the EU's free trade agreements is 91 percent for EU importers and 68 percent for partner country importers. The average 'preference savings rate' for both parties is 77 percent. This implies that the EU's free trade agreements are used to a generally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

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

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

The free trade agreements that are used to a high degree (≥ 75 percent) by both parties from an importer perspective are EU-Iceland, EU-Turkey, EU-Bosnia and Hercegovina, EU-Serbia, EU-Macedonia, EU-Switzerland, EU-Algeria and EU-Albania. The free trade agreements that are used

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



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

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

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

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

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

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

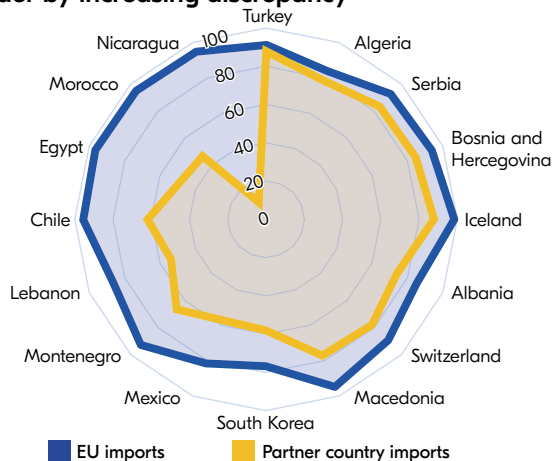
to an intermediate degree by the partner country importers. The remaining free trade agreements are, however, used to a relatively low or low degree by the partner country importers (see Figure 6). The discrepancy between the parties will be analysed in detail in Chapter 4.1.2.

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

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

The ‘preference savings rates’ are based on both the preference margins and the values of preference eligible trade. The somewhat higher levels of ‘preference savings rates’, when compared to ‘preference utilization rates’, might, accordingly, indicate that importers in general – and EU importers in particular – are utilizing the available preferences and the available prefer-

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



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

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

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



ence margins to a high degree. The findings with regard to the ‘preference savings rates’ indicate the importance of also focusing on the importer perspective in the analysis of the use of free trade agreements in order to have a complete picture of preference utilization.

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

In reality, however, it is somewhat unexpected to find that the preference utilization of the EU exporters and, accordingly, partner country importers is substantially lower with regard to

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

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

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

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

2

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

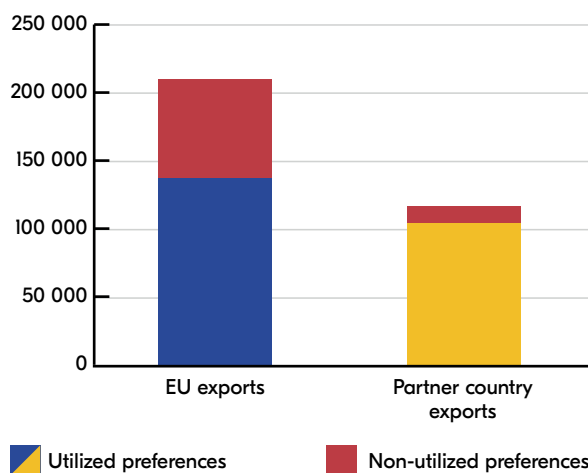
The indicator 'preference utilization rate' is calculated based on the values of utilized preferences and non-utilized preferences. The 'preference utilization rate' is a relative measure but in an analysis of preference utilization it is important to complement this measure with the absolute values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

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

2.1 The value of utilized preferences

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

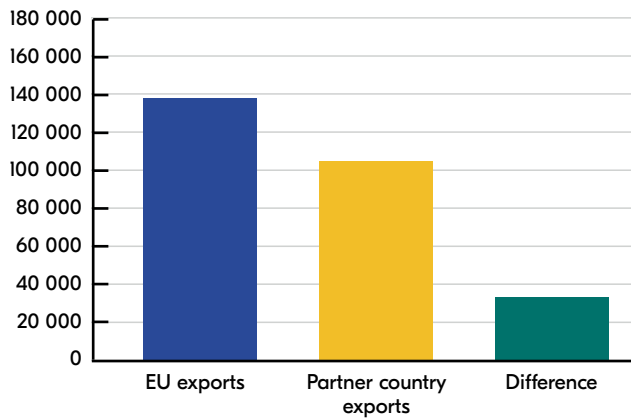
Figure 7: The values of utilized and non-utilized preferences in the EU's free trade agreements, EUR millions



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

Source: Based on European Commission, Comtrade and Eurostat data

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



Source: Based on European Commission, Comtrade and Eurostat data

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

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

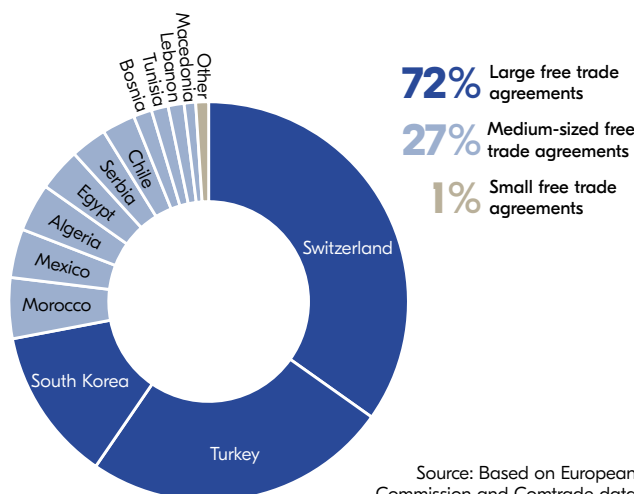
The total value of utilized preferences by the EU is 138 billion euro and the total value of utilized preferences by partner countries is 105 billion euro (see Figure 8). In other words, the EU's preferential exports account for 57 percent of the total value of utilized preferences in the EU's free trade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

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

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

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

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



Source: Based on European Commission and Comtrade data

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

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

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

2.2 The value of non-utilized preferences

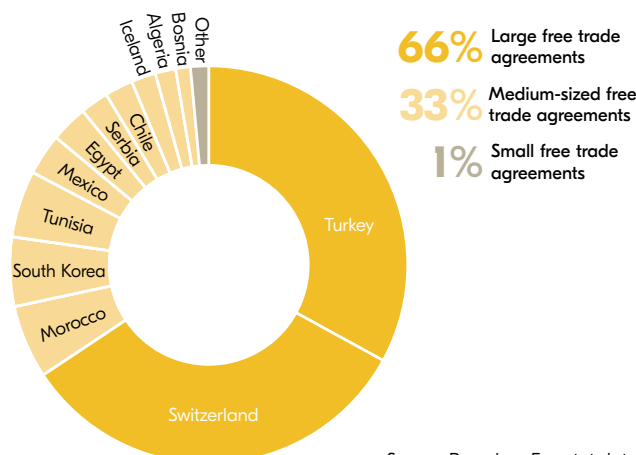
In order to analyse the value of the non-utilization of preferences in the EU's free trade agreements from an exporter perspective, the indicator 'value of non-utilized preferences', or preference eligible exports where preferences are not utilized, is used. The indicator value of trade of non-utilized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

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

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

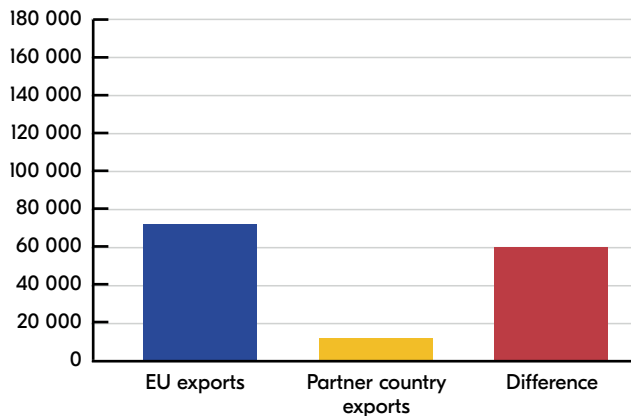
The total value of non-utilized preferences by the EU is 72 billion euro and the total value of non-utilized preferences by partner countries is 12 billion euro (see Figure 11). In other words, the EU's value of non-utilized preferences accounts for as much as 86 percent of the total value of non-utilized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

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



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

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



Source: Based on European Commission, Comtrade and Eurostat data

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

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

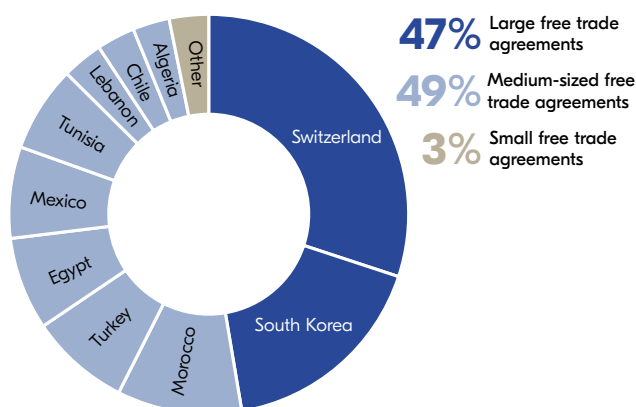
Free Trade Agreement (EUR millions)	EU exports	Partner country exports	Difference
Iceland	47	36	10
Switzerland	21 754	3 476	18 279
Turkey	5 865	3 374	2 491
Tunisia	5 042	318	4 725
Mexico	5 359	1 599	3 760
Morocco	7 306	277	7 029
Macedonia	405	70	335
Chile	2 245	239	2 007
Egypt	5 442	186	5 256
Algeria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

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

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

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

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

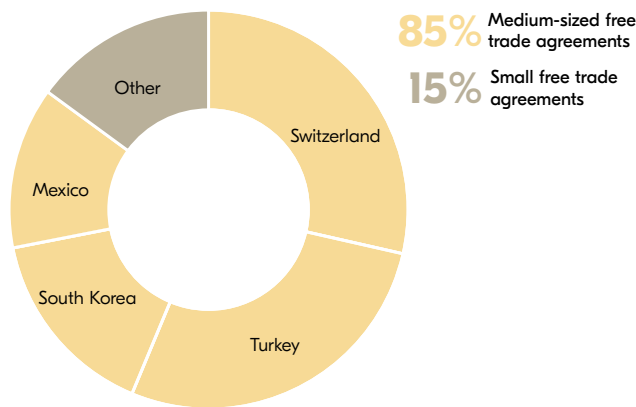


Source: Based on European Commission and Comtrade data

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



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



Source: Based on Eurostat data

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

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

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

3

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

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

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

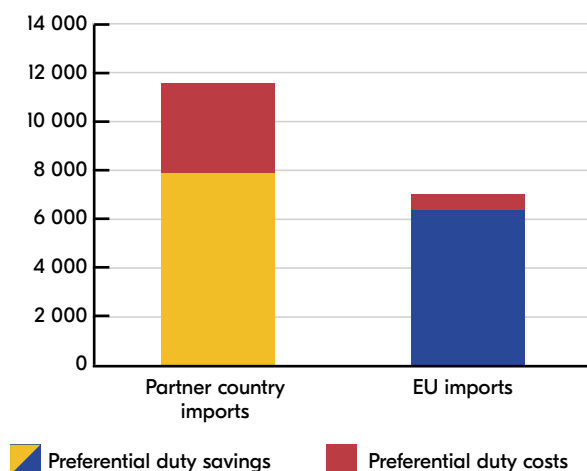
taken place in the absence of preferential duty savings – and the preferential duty costs of the importers is a tariff revenue for the customs authorities – provided that the imports will continue to take place with maintained preferential duty costs).

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

3.1 The value of preferential duty savings

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

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



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

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



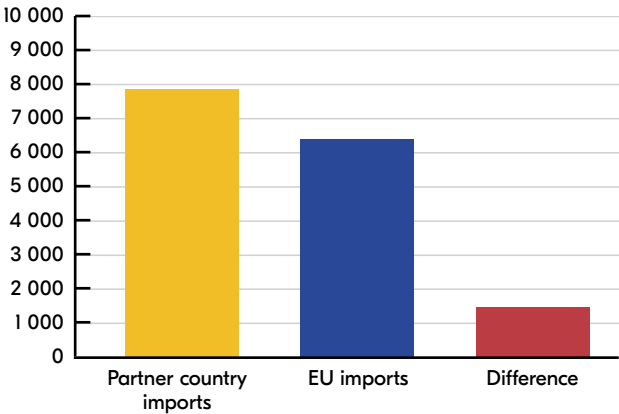
product of the value of preferential imports and the average preference margins. The value of preferential duty savings provides a picture of the importance of the utilization of preferences in free trade agreements for the economy at an absolute level. However, the compliance costs of utilizing the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

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

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

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

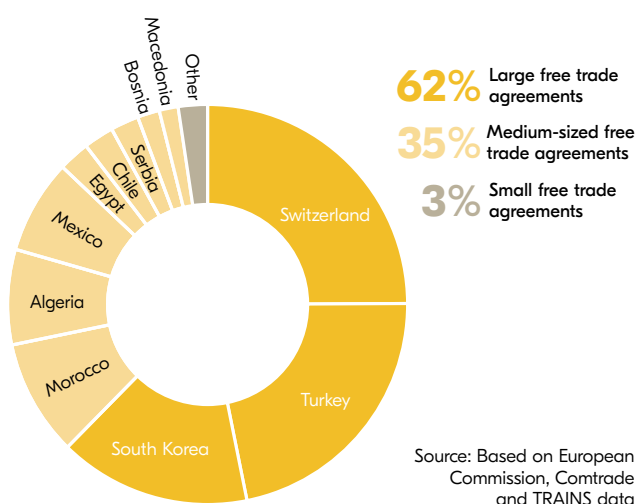
Figure 15: Value of preferential duty savings in the EU's free trade agreements (average 2009-2013), EUR millions



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

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

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



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

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

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

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

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

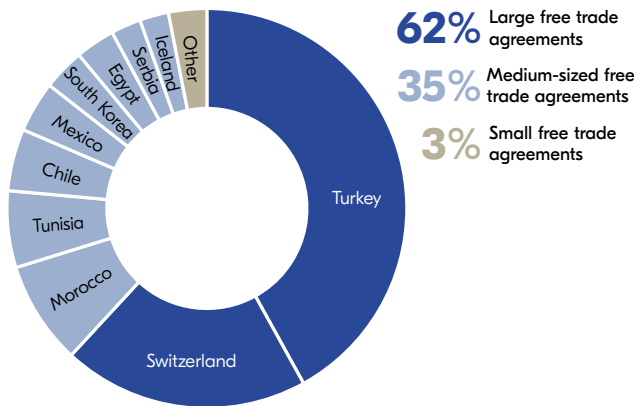
eight medium-sized free trade agreements (≥ 100 million euro) account for 35 percent of the total value of preferential duty savings. The seven smallest free trade agreements (< 100 million euro) only account for 3 percent of the total value of preferential duty savings (see Figure 17).

3.2 The value of preferential duty costs

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

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

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



Source: Based on Eurostat and TRAINS data

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

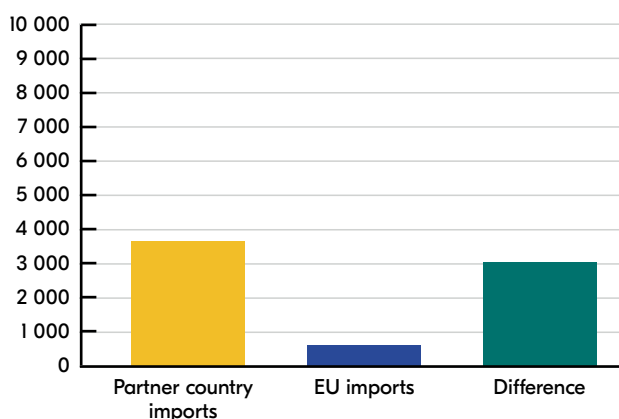
accordingly, is slightly higher. This, in combination with the higher value of the preferential imports of partner countries where preferences are not utilized, explains partly the higher preferential duty costs for the partner countries. The opposite is the case for the EU's preferential duty costs.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

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

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

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

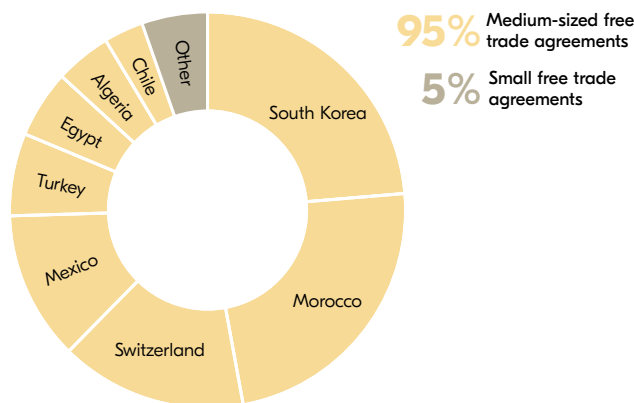
Figure 18: Value of preferential duty costs in the EU's free trade agreements (average 2009-2013), EUR millions



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

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

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



Source: Based on European Commission, Comtrade and TRAINS data

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

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

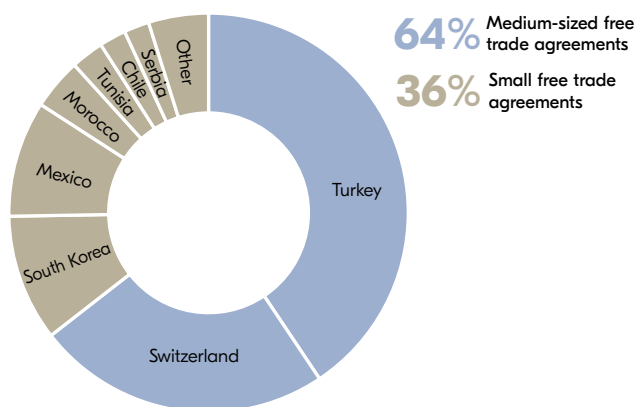
In order to understand the economic importance of the individual free trade agreements, the composition of the total value of preferential duty costs is analysed below.

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

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

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

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



Source: Based on Eurostat and TRAINS data

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

4

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

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

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

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

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

4.1 Identification of one-sided under-utilization of preferences

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

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

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

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

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

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

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

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

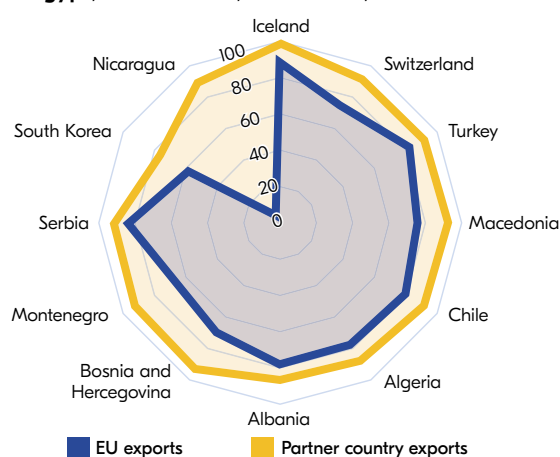
According to the above-mentioned approach, the under-utilization of preferences in the EU's free trade agreements is identified in EU exports to Tunisia, Morocco, Egypt, Lebanon and Mexico (see Table 2). In practice, the discrepancy is above 40 percentage points in most of the identified free trade agreements.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

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

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

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

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



Source: Based on European Commission and Eurostat data

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

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

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

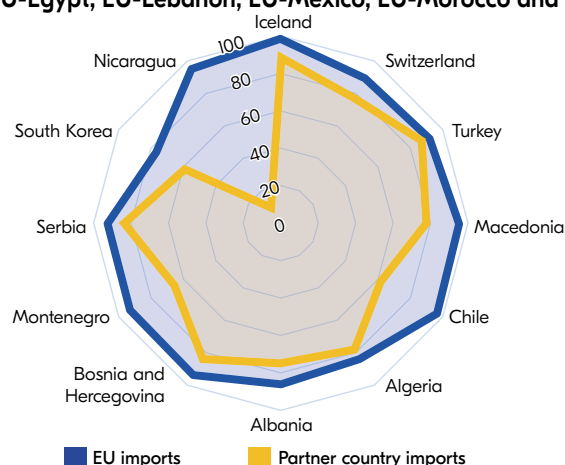
Source: Elaborated by the National Board of Trade Sweden and UNCTAD
 Note: EU-Tunisia is not included in the analysis due to the lack of data on preferential tariffs.

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

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

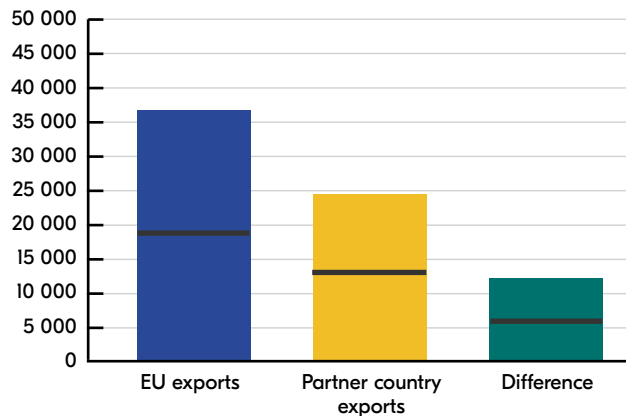
In the above-identified free trade agreements, there is a high discrepancy in the 'preference savings rates', ranging from 24 percent in EU-Mexico to 49 percent in EU-Morocco. There is also a high discrepancy in EU-Nicaragua and EU-Montenegro but these free trade agreements have been in force for less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

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



Source: Based on Eurostat, European Commission and Comtrade data

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



Source: Based on European Commission, Comtrade and Eurostat data

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

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

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

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

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

4.2.1 The impact on preferential trade values

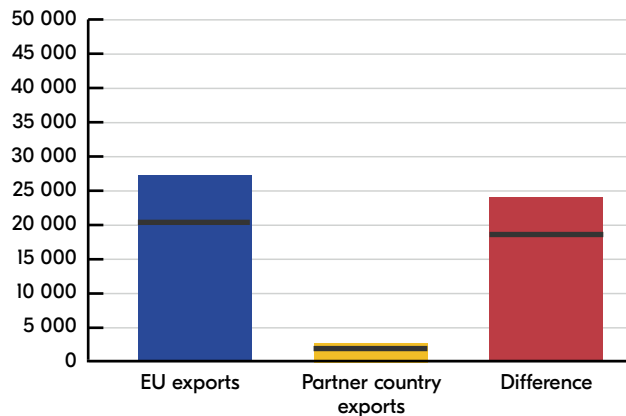
The value of utilized preferences: The medium-sized free trade agreements that are identified as under-utilized by the EU exporters – EU-Tunisia, EU-Morocco, EU-Egypt, EU-Lebanon and EU-Mexico – account for 23 percent of the net value of utilized preferences when the three largest free trade agreements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

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

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



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

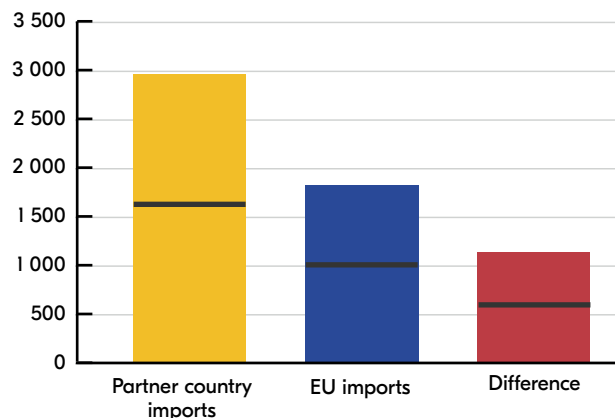


Source: Based on European Commission, Comtrade and Eurostat data

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

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

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



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

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

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



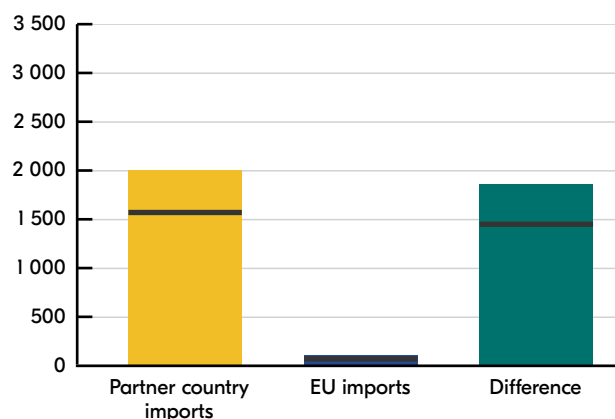
Tunisia is excluded from the analysis (in order to make the analysis comparable with the data on the value of preferential duties where there is no data from Tunisia), the net surplus of the under-utilized free trade agreements is 76 percent. The medium-sized free trade agreements where one-sided under-utilization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

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

4.2.2 The impact on preferential duty values

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

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



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

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

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

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

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

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

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

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

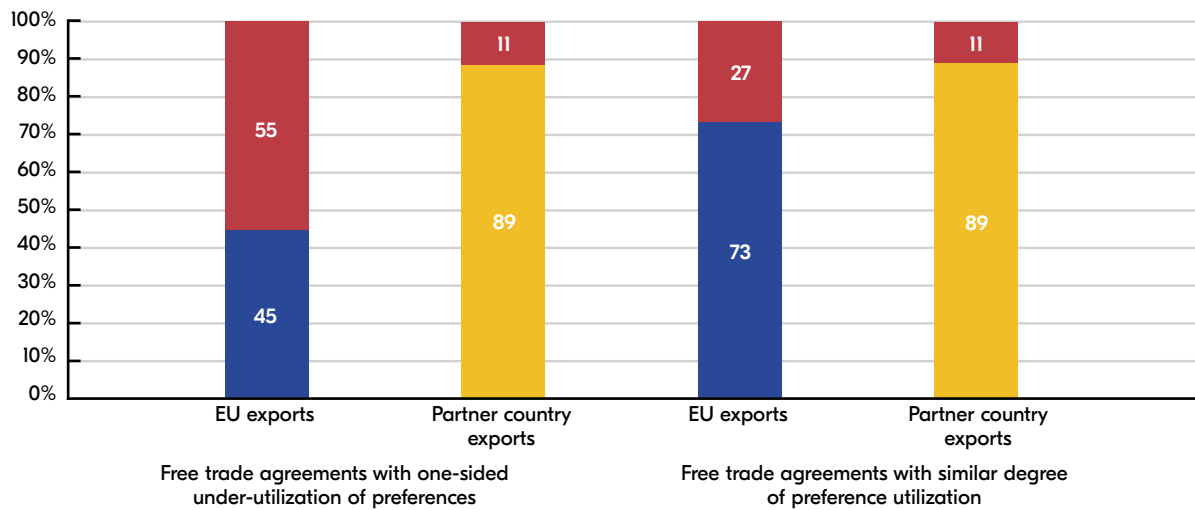
cent and 77 percent, respectively, in the EU’s free trade agreements, it is still possible to increase the utilization of preferences. Even relatively small increases in the utilization of preferences in the largest free trade agreements with regard to the values of preference eligible trade might generate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

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

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

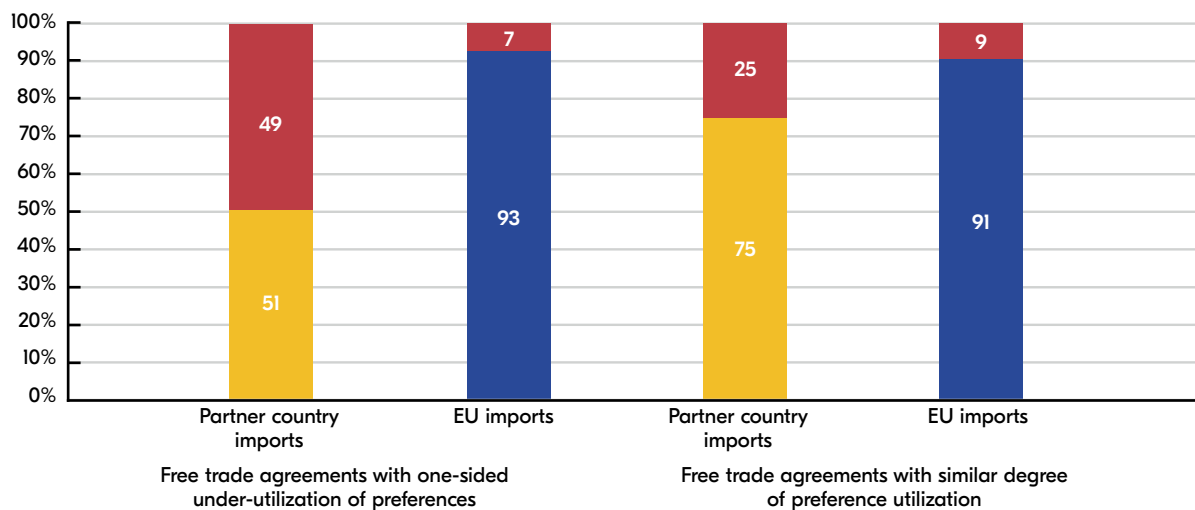


Figure 27: Under-utilization of preferences at export in the EU's free trade agreements (in percent)



Source: Based on European Commission, Comtrade and Eurostat data

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



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

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

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

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

5

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

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

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

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

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

5.1.1 Preference utilization in relative terms vs. absolute terms

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

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

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

5.1.2 The exporter perspective vs. the importer perspective

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



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

	Exporter perspective		Importer perspective	
	+	-	+	-
Relative importance	Partner countries (Preference utilization rate)	EU (Rate of non-utilization of preferences)	EU (Preference savings rate)	Partner countries (Preference costs rate)
Absolute importance	EU (Utilized preferences in value)	EU (Non-utilized preferences in value)	Partner countries (Preference savings rate)	Partner countries (Preference costs rate)

Source: Elaborated by the National Board of Trade and UNCTAD

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

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

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

Source: Elaborated by the National Board of Trade and UNCTAD

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

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

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

Source: Elaborated by the National Board of Trade and UNCTAD

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

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

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

Source: Elaborated by the National Board of Trade and UNCTAD

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

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

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

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

5.1.3 The private sector perspective vs. the public sector perspective

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

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

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

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

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

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

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

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

5.2.1 The average preference margins of utilized preferences in the EU’s free trade agreements

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

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

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

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

Source: Based on European Commission, Comtrade, Eurostat and TRAINS data
 Note: EU-Tunisia is not included in the analysis due to the lack of data on preferential tariffs.

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

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

Source: Based on European Commission, Comtrade, Eurostat and TRAINS data
 Note: EU-Tunisia is not included in the analysis due to the lack of data on preferential tariffs.

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

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

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

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

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

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



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

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

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

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

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

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

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

Concluding remarks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Preference utilization rates

EU exports

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

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

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

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

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

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

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

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

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

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

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

Partner country exports

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

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

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

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

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

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



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

EU exports

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

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

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

Where:

VALTOT = Total value of imports

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

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

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

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

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

Where:

VALCOVD = Value of preference eligible imports

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

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

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



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

Partner country exports

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

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

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

Partner country imports

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

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

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

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

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

Source: Elaborated by UNCTAD

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

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

EU imports

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

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

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

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

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

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

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

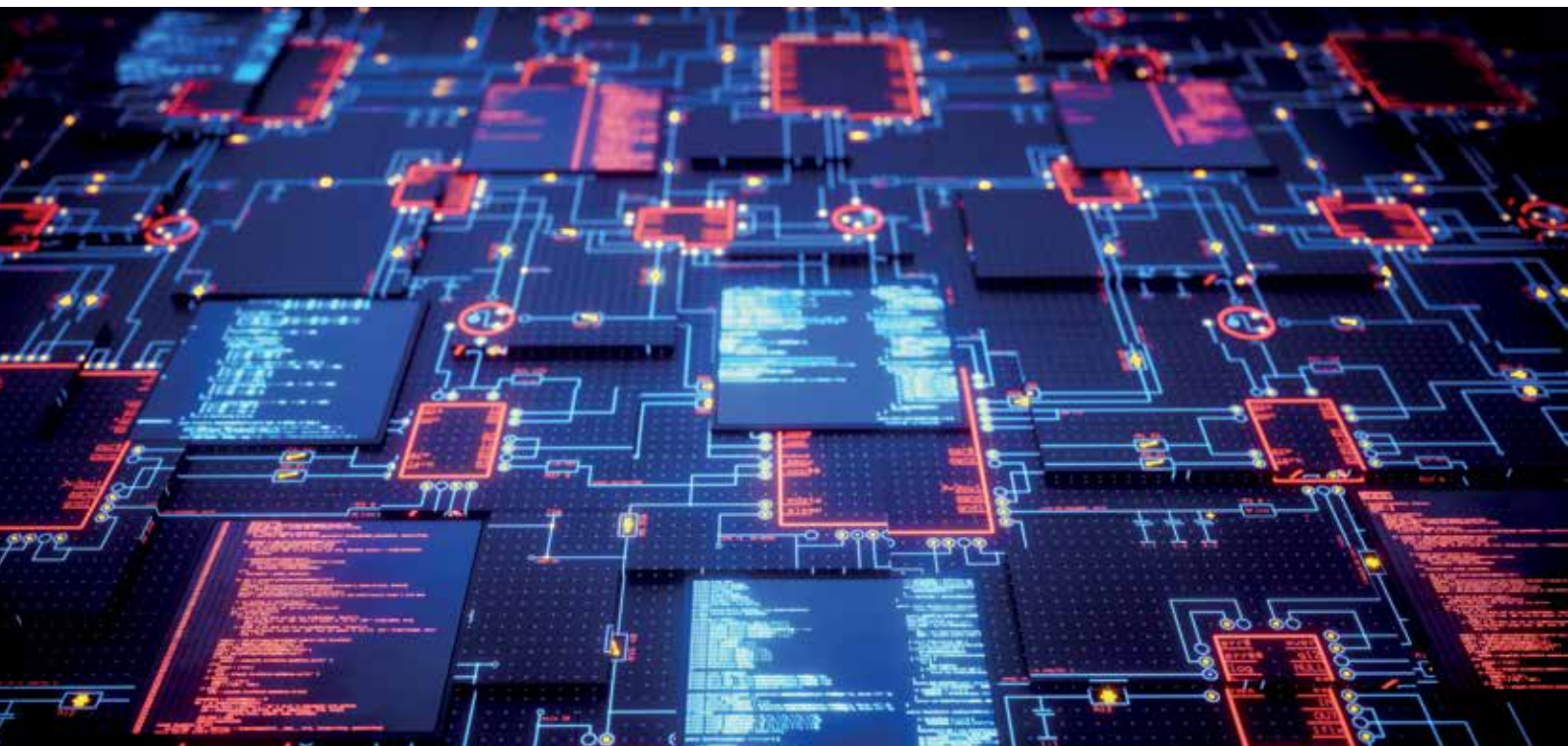
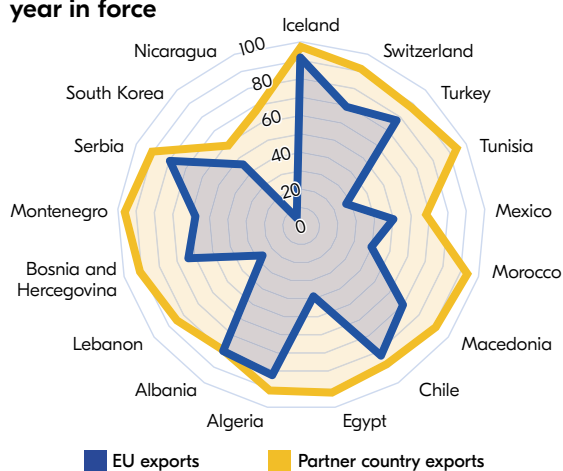


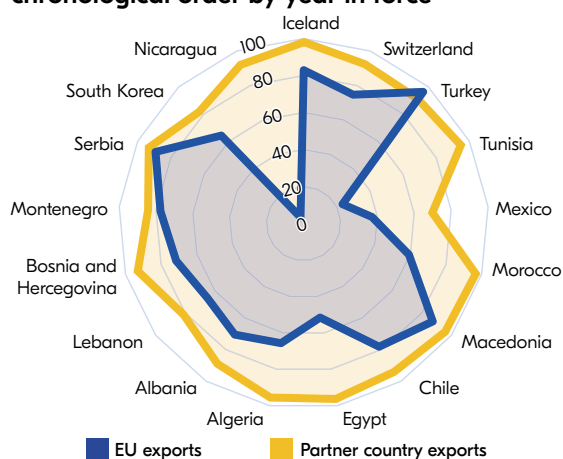
Figure 2A: Preference utilization rates in the EU's free trade agreements in 2009, in percent, chronological order by year in force



Source: Based on European Commission and Eurostat data

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

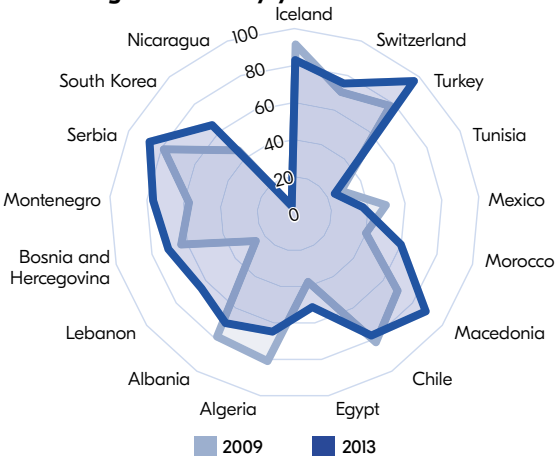
Figure 2B: Preference utilization rates in the EU's free trade agreements in 2013, in percent, chronological order by year in force



Source: Based on European Commission and Eurostat data

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

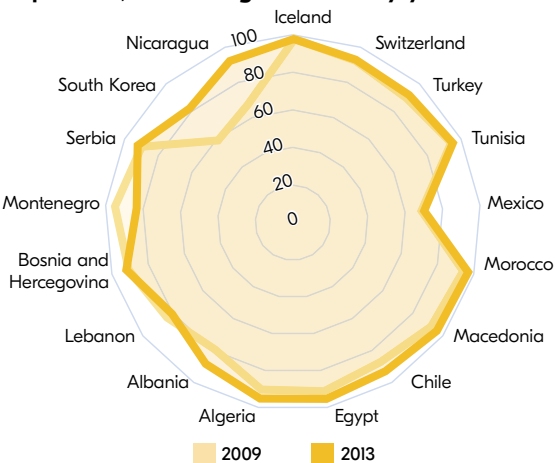
Figure 2C: Preference utilization rates in the EU's free trade agreements, EU 2009-2013, in percent, chronological order by year in force



Source: Based on European Commission data

Free Trade Agreement	2009 (%)	2013 (%)	Difference (p.p.)
Iceland	91	83	-8
Switzerland	70	75	5
Turkey	78	96	18
Tunisia	28	24	-4
Mexico	50	37	-13
Morocco	40	59	19
Macedonia	70	88	18
Chile	83	78	-5
Egypt	38	51	13
Algeria	82	65	-17
Albania	79	70	-9
Lebanon	26	65	39
Bosnia and Hercegovina	63	71	8
Montenegro	57	77	20
Serbia	79	88	9
South Korea	46	65	19
Nicaragua	4	4	0
TOTAL	64	72	8

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



Source: Based on Eurostat data.

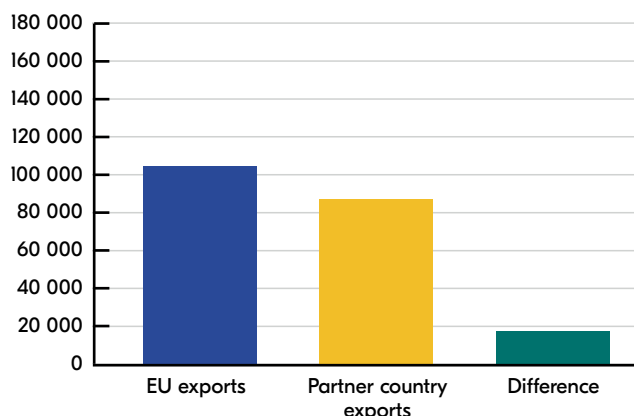
Free Trade Agreement	2009 (%)	2013 (%)	Difference (p.p.)
Iceland	97	98	0
Switzerland	92	93	1
Turkey	89	92	3
Tunisia	95	95	0
Mexico	68	70	2
Morocco	94	97	3
Macedonia	91	95	4
Chile	88	93	5
Egypt	92	96	4
Algeria	90	95	5
Albania	79	88	9
Lebanon	84	81	-3
Bosnia and Hercegovina	91	93	2
Montenegro	96	84	-12
Serbia	90	92	2
South Korea	59	82	23
Nicaragua	67	92	25
TOTAL	87	91	3

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

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

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

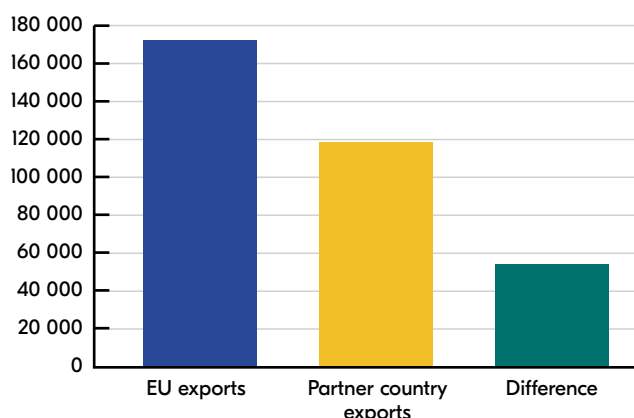
Figure 2E: Value of utilized preferences in the EU's free trade agreements in 2009, EUR millions



Source: Based on European Commission, Comtrade and Eurostat data

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

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

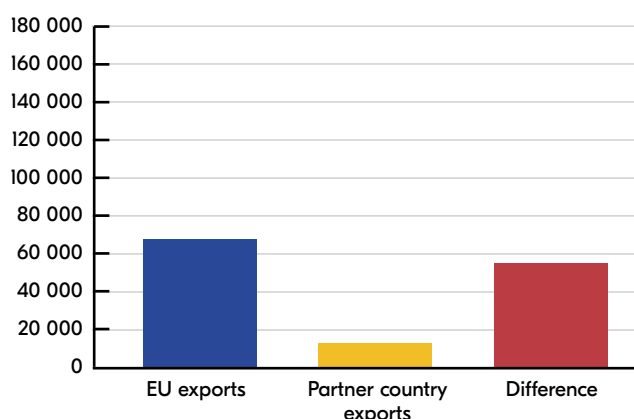


Source: Based on European Commission, Comtrade and Eurostat data

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

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

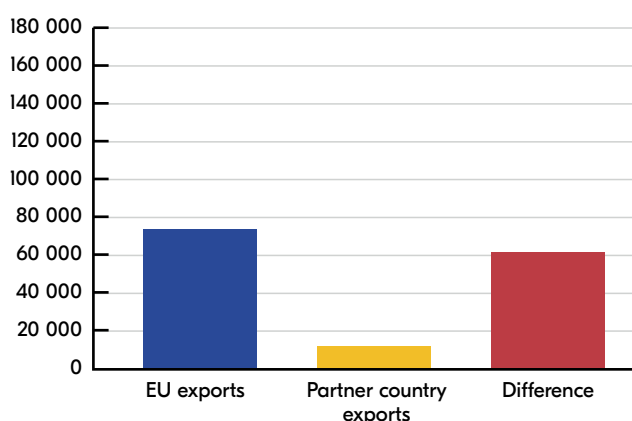
Figure 2G: Value of non-utilized preferences in the EU's free trade agreements in 2009, EUR millions



Source: Based on European Commission, Comtrade and Eurostat data

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

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

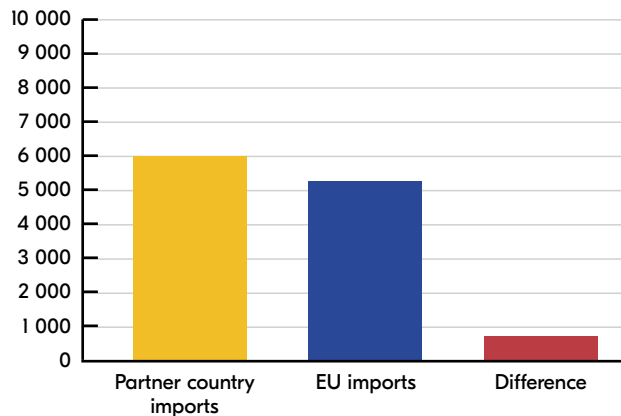


Source: Based on European Commission, Comtrade and Eurostat data

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

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

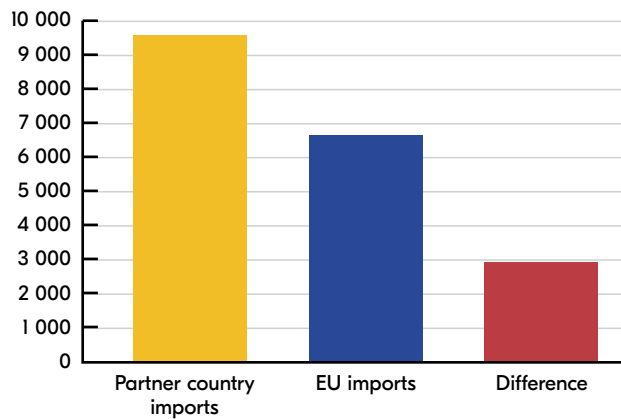
Figure 2i: Value of preferential duty savings in the EU's free trade agreements in 2009, EUR millions



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

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

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

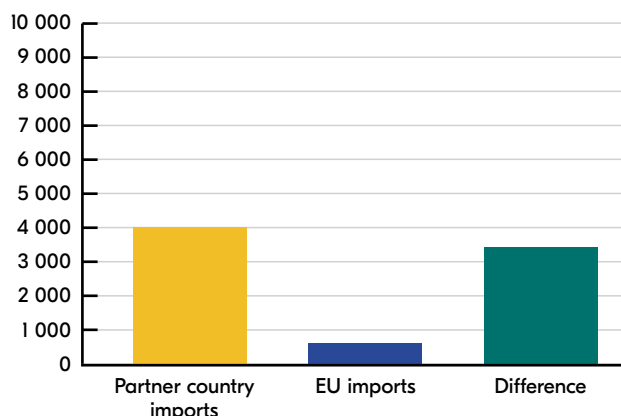


Source: Based on European Commission, Comtrade, Eurostat and TRAINS data

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

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

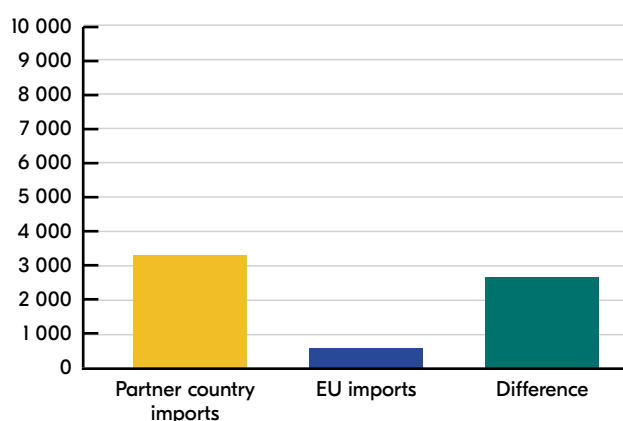
Figure 2K: Value of preferential duty costs in the EU's free trade agreements in 2009, EUR millions



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

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

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



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

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

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

