

FAQs on preference utilisation rates (PUR)

Introduction

The Commission/DG TRADE has published data on use of tariff preferences on EU exports for 33 EU preferential trading partners and for EU imports for 76 trading partner, divided into 22 HS sections. Preference utilisation rates are provided for the EU27, EU28 and individual EU Member States for the years 2017, 2018 and 2019. This publication is meant to increase transparency on the utilisation of tariff preferences under EU trade agreements. It is also done with a view to helping business associations and Member States to conduct their own research and compare the outcomes, sharing their experiences and lessons learnt with a view to identifying ways of helping their constituencies to make better use of the opportunities. The data will be annually updated.

The data is available on DG TRADE's website in two excel sheets, one reflecting preference utilisation rates on EU exports¹ and one excel sheet reflecting preference utilisation rates on EU imports². Both excel sheets come with a user manual.

Further questions on the data as contained in the excel sheet can be addressed to DG TRADE Statistics team at TRADE-STATISTICS@ec.europa.eu

This FAQ explanatory document seeks to respond to questions frequently raised by stakeholders on the role of preference utilisation rates in the implementation of EU trade agreements.

1. Q: "What are preference utilization rates (PURs)?"

Preference Utilisation Rates (PURs) measure the extent to which tariff preferences provided by a particular trade agreement are being used by imports and exports of either side.³ The PUR reflects the share of imports or exports entering under trade preferences as a share of the total value of imports or exports *eligible* for preferences by partner country. Eligibility/usage are being assessed at tariff line level.

2. Q: "What is the difference between PURs on EU imports and exports, respectively?"

The PUR on EU imports from a particular trading partner corresponds to the share of EU imports eligible for preferences (i.e. where a preferential tariff lower than the most favoured nation (MFN) tariff exists) that actually entered under preferences (i.e. the preferential tariff has been applied) over a given time period. Conversely, the PUR on EU exports to a particular trading partner corresponds to the share of EU exports eligible for preferences that entered under preferences. Preference-eligible imports exist if the applied preferential tariff is

¹ <https://trade.ec.europa.eu/doclib/html/159047.htm>

² <https://trade.ec.europa.eu/doclib/html/159046.htm>

³ The PUR does not contain any information on who benefitted from the duties saved (e.g. importer or exporter).

lower than the applied MFN tariff. As a consequence, trade under MFN zero duties is not included in the calculations, nor is trade under “special regimes” (see also further below, Q 5 and 6).

3. Q: “How does the Commission use PURs in the area of FTA implementation?”

PURs are proxies indicating the level of uptake of tariff preferences by companies in the EU and in partner countries, respectively, over a given time period. The Commission periodically collects data to calculate the PURs for the EU’s major trade agreements as part of its regular monitoring of the implementation of EU trade agreements. For example, if a sector/product category experiences relatively low or decreasing PURs over a number of years this may (also) be indicative of problems linked to the implementation of the trade agreement in question.

Information on PURs may inform discussions between Commission and Member States, business associations concerned and EU trading partners in order to further analyse the underlying reasons and take action, where appropriate (e.g. reinforce communication efforts to raise awareness among importers of the partner country, produce guidance, raise problematic practices by customs administrations, etc.).

4. Q: “Who calculates PURs on EU imports/exports? What is the source? When is the data usually available?”

DG TRADE calculates annually both PURs on EU imports and EU exports. The source used are the administrative data reported by the *importing country*: data on EU imports comes from national customs authorities of the EU Member States; data on EU exports comes from the national customs authorities of the respective trading partner. Consequently, different datasets are being used for compiling PURs on EU imports versus PURs on EU exports.

Data to calculate PURs on EU imports is made available by Eurostat. By contrast, the raw data to calculate PURs on EU exports needs to be requested from the respective trading partners. Not all trading partners (regularly) submit the data.

5. Q: “How does DG TRADE calculate PURs on EU imports?”

PURs on EU imports are calculated by DG TRADE thanks to a dataset built by Eurostat and merging two kind of data:

- EU import figures originating from national customs authorities in EU Member States. These import figures are under statistical regime 1 (‘normal trade’), meaning that they include only goods imported and released into free circulation in the EU customs territory, but exclude trade under inward or outward processing procedures (which grants full or partial exemption from duties and levies)
- EU import tariffs coming from the TARIC database of the European Commission/DG TAXUD

From this dataset, DG TRADE extracts information on:

- Eligibility: the tariff treatment that the products imported into the EU were eligible for (e.g. MFN tariff regime only, preferential tariff regime under the EU trade agreement, preferential tariff regime under the General System of Preferences);
- Usage: the tariff treatment applied to these same products (MFN or preferential);

DG TRADE calculates the PUR as the ratio between the imports for which preferential tariffs are used and the imports eligible for preferences.

Results for preference utilization on imports can be broken down as per trading partner (exporter), individual Member State and HS section/product category. However, absent the requisite data, a further breakdown (e.g. per company size or transaction) cannot be made at European level.

6. Q: “How does DG TRADE calculate PURs on EU exports?”

PURs on EU exports are calculated by DG TRADE based:

- on raw data collected from the national customs administrations of EU trading partners and
- on tariffs as contained in the [Access2Markets](#) (A2M) portal (former MADB).

DG TRADE asks partner countries to provide yearly data at tariff line level on the total value of imports from the EU (by Member State) with a breakdown by applied tariff regime divided by:

- ✓ imports under MFN (zero or positive) tariffs;
- ✓ imports under special tariff regimes, such as special processing schemes and duty suspension (e.g. inward processing schemes, imports into free zone, etc.);
- ✓ imports under FTA preferential tariff regime;
- ✓ imports under unknown tariff regime.

DG TRADE matches these trade flows’ data with the corresponding tariffs extracted from the EU A2M portal (former MADB). From the final obtained dataset, DG TRADE extracts information on:

- a) Eligibility: the tariff treatment that the products exported by the EU to the partner country were eligible for (e.g. MFN tariff regime only or preferential tariff regime under the FTA);
- b) Usage: the tariff treatment applied to these same products by the partner country;

The PUR is the ratio between the imports to which preferential tariffs are applied and the imports that are eligible for preferences.

Results for preference utilization on exports can be broken down as per trading partner, individual Member State and HS section/product category.

7. Q: “What are the main difficulties in calculating PURs on EU exports?”

The main difficulty relates to the solidity of raw data submitted by the trading partners. The Commission/DG TRADE is working with its trading partners in order to obtain more accurate data and carries out validity checks on data received. Unless the raw data is considered sufficiently solid, the PUR cannot be calculated for the partner country in question.

Even if raw data is considered sufficiently robust it may not account for factors, which distort results for PUR, such as alternative trading schemes providing duty-free market access (e.g. free trade zones), which require fewer or no formalities. Nor might the data account for programmes by the partner country's government that allow temporary suspension of MFN tariffs for certain products. Results for PURs on EU exports will therefore remain proxies.

In addition, a further breakdown per company size (e.g. PUR on exports by EU SMEs) cannot be made. This would require a matching of exporting EU firm level characteristics with customs data from EU trading partners on the use of preferences by individual firms. This data is not available to the Commission.

8. Q: “Why do EU PURs on exports differ among individual trading partner countries?”

Differences will in many cases arise from the use of different methodologies and level of precision of collection of data vary across EU trading partners. Therefore, comparison between PURs on EU exports to different trading partners are not conclusive but purely indicative. The level of awareness of importers in the EU partner countries with EU trade agreements may also play a role, as may practices by customs authorities of the partner countries which may make it easier or more burdensome to use preferences.

9. Q: “How to explain the difference in PURs on EU exports versus EU imports?”

First of all, there are statistical reasons as preference utilisation rates (PUR) on EU exports and imports are based on distinct datasets. The dataset obtained by Eurostat to calculate PUR on EU imports is harmonised and consistent⁴ and allows for comparison across partner countries and years. By contrast, the datasets obtained from the EU's various trading partners are based on different methodologies and are not comparable among different partners or to PUR on EU imports. Second, the PUR may be artificially low if special tariff regimes are not excluded from the calculation. Apart from statistical issues, there are many other factors influencing the PURs (see also Q 10).

10. Q: “Which are some of the main factors that may influence the use of preferences?”

The use of preferences is first and foremost driven by commercial considerations made by companies, weighing costs and benefits for each individual transaction and adjusting their sourcing and supply chains accordingly.

⁴ However, some margin of error is still possible since the data does not capture certain changes in the preferential status of imports, such as claims for preferences made by importers after the goods have been declared to customs and denial of preferences decided by customs after verification and post-release of the goods.

In addition, a lot depends on whether business partners are sufficiently aware of the trade agreements. Since it is for importers to claim the preferences they need know how to unlock the benefits and be motivated to do so (e.g. in view of preference margins). Certain practices by customs authorities may make it easier or more burdensome to use preferences and thus also impact business' decisions. What is more, in order to benefit from preferential treatment, exporters have to submit documentation to support their claim proving that their products fulfill the rules of origin as determined by the trade agreement in question. While the rules of origin have been continuously simplified, their verification may still pose challenges in particular for smaller companies, given the complexity of EU-27 supply chains.

11. Q: “What is the Commission doing to obtain more solid data on PUR and to understand better the underlying reasons for poor preference use?”

The European Commission/DG TRADE uses the various committees established by its trade agreements to engage with its trading partners on the utilisation of preferences, with a view to obtaining reliable data on a regular basis. The Commission/DG TRADE is also engaging with some of its main trading partners⁵ to compare the respective analysis of preference utilisation rates in view of improving data accuracy.

The European Commission/DG TRADE through its various technical and expert groups (including the Market Access Advisory Committee and its working groups) continues its dialogue with EU Member States, the other EU institutions, business associations and sectors to better understand why tariff preferences are not used to the full extent.

The European Commission/DG TRADE uses ex-post evaluation studies⁶, in-house research by DG TRADE staff⁷ and implementation studies on EU trade agreements to look at preference use and is intensifying its efforts in this area, including through carrying out surveys and developing questionnaires to individual companies to examine the main drivers when it comes to the use of preferences.

Several Member States have also recently undertaken research into the utilisation of preferences.⁸

⁵ Switzerland has recently published a study on the use of preferences under its FTAs, available at : https://www.seco.admin.ch/seco/en/home/Aussenwirtschaftspolitik_Wirtschaftliche_Zusammenarbeit/Wirtschaftsbeziehungen/Freihandelsabkommen/nutzung_freihandelsabkommen.html

⁶ See for example ex-post evaluation of the EU-South Korea FTA (final report, section 10.7); Ex-post evaluation of the Association Agreements with 6 Mediterranean countries (interim report, pp. 16, 106, 198-200); Ex-post evaluation of the EU-Cariforum EPA (draft interim report, section 4.5).

⁷ See e.g. Gulczyński, M and L. Nilsson (2019), The use of preferences under the EU - Korea FTA, *Journal of Korea Trade*, Vol. 23, No. 5, Nilsson, L. and N. Preillon (2018), EU exports, preference utilisation rates and duty savings by member state, sector and partner country, *Chief Economist Note Issue 2 2018*, http://trade.ec.europa.eu/doclib/docs/2018/june/tradoc_156931.pdf, Albert, C. and L. Nilsson (2016), To use or not to use (trade preferences), that is the question: estimating the fixed cost thresholds, *mimeo*, European Commission and Nilsson, L (2016), EU exports and uptake of preferences: a first analysis, *Journal of World Trade* 50, No. 2, pp. 219-252.

⁸ Recent examples of complementary research by Member States include: Study by the Swedish National Board of Trade: <https://www.kommerskollegium.se/globalassets/publikationer/rapporter/2019/publ-who-uses-the-eus-free-trade-agreements.pdf> ; Study by Finland: <https://julkaisut.valtioneuvosto.fi/handle/10024/161952> ; Study by the Netherlands: <https://www.ecorys.com/sites/default/files/2019-07/study-on-the-use-of-trade-agreements%20%283%29-compressed.pdf>

12. “What is the Commission doing to improve the uptake of EU trade agreements’ preferences?”

The Commission is strengthening its communication and outreach on new and existing trade agreements, including the development of dedicated guides facilitating the use of tariff preferences. Recent examples include

- **A Guide on Rules of Origin in CETA⁹ and a fact sheet on textiles and clothing¹⁰**
- **A Guide on Rules of Origin in the EU-Vietnam Free Trade Agreement¹¹**
- **Guidance on Rules of Origin in der EU-Japan EPA¹² and SME Helpdesk¹³**

The Commission on 13 October launched its new portal “**Access2Markets**” (A2M), which provides information on 120 export destinations and sourcing conditions for *all* non-EU markets. Companies can pull up information on key aspects like tariffs, internal taxes, rules of origin, customs procedures and product requirements, trade barriers and trade flows. ‘A2M’, through its new ‘**RosA**’ (Rules of Origin Self Assessment) tool, also responds to stakeholder requests for clearer and more comprehensive information on the applicable rules of origin. Companies will be able to assess whether they fulfil rules of origin requirements to benefit from preferential duties. This should help companies, in particular smaller ones, to access key information on how to unlock the preferences and benefit from the agreements. A2M contains a static overview of most EU preferential trade agreements (including their Rule of Origin chapter).

The Commission/DG TRADE is also preparing the introduction of a **Single entry point (SEP)** for stakeholders’ complaints regarding market access barriers in non-EU countries, as well as on the implementation of labour, environment or climate provisions in trade agreements. This new centralised complaints procedure will streamline the Commission’s response to market access barriers and possible breaches of trade and sustainable development commitments.

⁹ https://ec.europa.eu/taxation_customs/sites/taxation/files/ceta_guidance_en.pdf

¹⁰ https://trade.ec.europa.eu/doclib/docs/2019/november/tradoc_158417.pdf

¹¹ https://ec.europa.eu/taxation_customs/sites/taxation/files/evfta-guidance.pdf

¹² https://ec.europa.eu/taxation_customs/business/international-affairs/international-customs-cooperation-mutual-administrative-assistance-agreements/japan_en

¹³ <https://www.eu-japan.eu/epa-helpdesk>