FAQ on preference utilisation rates (PUR), duty savings and tariff rate quotas (TRQ)

This explanatory document seeks to respond to some of the questions most frequently raised by stakeholders on preference utilisation and tariff rate quotas. It accompanies the annual publication by the Commission/DG TRADE of data on **preference utilisation rates** (PUR) and **duty savings rates** (DSR) as well as on **tariff rate quotas** (TRQ) in preferential trade agreements between the EU and some of its main trading partners, made available on the Commission's website.[1] Publishing this data on a yearly basis aims to increase transparency and help business associations and Member States to conduct their own reseach to find how they can better assist their constituencies to make use of the opportunities trade agreements offer.

Statistics **on PUR and DSR** covers the use of preferences on **EU exports** (to 36 trading partners) and EU imports (from 77 trading partners[2]) divided into 22 HS[3] sections. Data is provided for the EU27 and individual EU Member States for the years 2018, 2019 and 2020. The data is available in two Excel sheets, one reflecting PUR and DSR on EU exportsand one Excel sheet reflecting PUR on EU imports. Both Excel sheets come with a user manual. Further questions on PUR and DSR can be adressed to DG TRADE Statistics team at TRADE-STATISTICS@ec.europa.eu

Data on **TRQ** covers fill rates for EU exports to 18 preferential partners and fill rates for EU imports from 30 preferential trading partners for the years 2018, 2019 and 2020. The data is available in a pdf document[4], providing the TRQ description, the TRQ availability (quantitities) as well as the fill rate. Further questions on TRQ can be addressed to TRADE-D3-REQUEST-BOX@ec.europa.eu

[1] https://ec.europa.eu/trade/policy/policy-making/enforcement-and-protection/

[2] Data for preference use on imports from the UK is not yet covered, as the UK Trade and Cooperation Agreement did not yet apply in 2020.

[3] Harmonized Commodity Description and Coding Systems (HS) of the World Customs Organisation

[4] https://trade.ec.europa.eu/doclib/html/159797.htm

Part I: FAQ on the use of tariff preferences and duty savings

Q 1: "What are preference utilisation rates (PUR) and what is the difference between PUR on EU imports and EU exports, respectively?"

Preference Utilisation Rates (PUR) measure the extent to which tariff preferences provided by a particular trade agreement are being used by imports and exports of either side.[5] 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.

The PUR on EU imports from a particular trading partner corresponds to the share of EU imports that entered under preferences in total imports of products eligible for over a given time period. Conversely, the PUR on EU exports to a particular trading partner corresponds to the share of EU exports that entered under preferences in total EU exports to that trading partner eligible for preferences.

A product is eligible for preferences if a preferential tariff exists for this product, which is lower than the MFN tariff. As a consequence, trade under MFN zero duties is not included in these calculations, nor is trade under "special regimes".

Q 2: "What is the concept underlying duty savings rates (DSR) and how does it differ from PUR?"

While the PUR measures the extent, to which preferential tariffs are used it does not say anything about the size of the preference margin, i.e. the difference between the MFN (WTO) tariff on the one hand and the preferential tariff granted by the trade agreement on the other hand. Therefore, when it comes to the utilisation of preferences on EU exports, a complementary concept is used: duty savings. This concept measures the estimated amount of duties that the exporter/importer can theoretically save by using the preferential tariff instead of the MFN tariff.

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

Q 3: "Which different types of duty savings can be distinguished and how are they calculated?

Three types of duty savings can be distinguished:

- Potential duty savings are duties saved in case of full use of preferences
= Preferential margin[6] x Preference eligible imports

- Actual duty savings are duties saved thanks to applied preferential treatment
= Preference margin x Preferential imports

- Foregone duty savings are duties missed because preferential treatment was not applied
= Preferential margin x (Preference eligible imports minus Preferential imports)

Q 4: "What is the duty savings rate (DSR) and how is it calculated?"

The DSR is the ratio between the Actual duty savings and the Potential duty savings.

Q 5: "Which caveats need to be applied when using estimated duty savings and DSR?"

To start with, PUR give an indication of the underutilisation of preferences theoretically available on imports. Using DSR we can quantify this underutilisation in terms of lost duty amounts. Neither of these indicators says anything about the *reasons* for the detected underutilisation, such as lack of awareness, administrative difficulties, etc.

Furthermore, some issues are not detected by the available data and lead to certain system-immanent inaccuracies. For example, our calculation method identifies all trade in preferential TRQs as 'eligible' even if the quota is exhausted and non-ad valorem tariffs are not taken into account. In addition, the tariffs used to determine the eligibility for preferences and to calculate the preference margin are the minimum MFN tariff and the minimum preferential tariff (both normal tariffs and tariffs within quotas are considered).

[6] The Preference margin is the difference between the MFN tariff and the preferential tariff calculated at tariff line level.

Q 6: "How does the Commission use PUR and DSR in the area of FTA implementation?"

PUR and DSR 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 PUR and DSR for the EU's major trade agreements as part of its regular monitoring of their implementation. If a sector/product category shows relatively low or decreasing PUR or DSR over a number of years this may be indicative of problems linked to the implementation of the trade agreement in question.

Information on PUR and DSR 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.).

Q 7: "Who calculates PUR and DSR and where does the raw data stem from? When is the data usually available?"

DG TRADE calculates annually both PUR on EU imports and EU exports and DSR on EU exports. The sources used are administrative data collected by the respective *importing country*: for EU imports the national customs authorities of the EU Member States; for EU exports the national customs authorities of the respective trading partner.

Eurostat publishes data needed for calculation of PUR on EU imports. By contrast, data needed for the calculation of PUR and DSR on EU exports is requested by the Commission/DG TRADE from each individual trading partner. Not all trading partners (regularly) submit the data.

Q 8: "How does DG TRADE calculate PUR on EU imports?"

Preference utilisation rates

PUR on EU imports are calculated by DG TRADE using 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 are theoretically 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 actually 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 utilisation on imports can be broken down as per trading partner (exporter), individual Member State and HS section/product category.

Q 9: "How does DG TRADE calculate PUR and DSR on EU exports?"

PUR and DSR 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.[7] From the final obtained dataset, DG TRADE extracts information on:

a) Eligibility: the tariff treatment that the products exported by the EU to a partner country are eligible for (e.g. MFN tariff regime only or preferential tariff regime under the FTA);

b) Usage: the tariff treatment actually applied to these same products by this partner country.

The PUR is the ratio between the imports to which preferential tariffs are applied and the imports that are eligible for preferences. DG TRADE calculates the DSR as the ratio between the Actual duty savings and the Potential duty savings.

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

[7] https://trade.ec.europa.eu/access-to-markets/en/home

Q 10: "What are the main difficulties in calculating PUR and DSR 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 and DSR 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 or DSR, 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 PUR and DSR on EU exports will therefore remain proxies.

In addition, a further breakdown per company size (e.g. PUR/DSR 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.

Q 11: "Why do EU PUR and DSR 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 PUR and DSR 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 might practices by customs authorities of the partner countries which smay make it easier or more burdensome to use preferences.

Q 12: "How to explain the difference in PUR 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 consistent[8] 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 statitical issues, there are many other factors influencing the PUR.

[8] 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.

Q 13: “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.

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 continously simplified, their verification may still pose challenges in particular for smaller companies, given the complexity of EU-27 supply chains.

Q 14: “What is the Commission doing to obtain more solid data on PUR and DSR 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 partners[9] 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 studies[10], in-house research by DG TRADE staff[11] 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.

[9] 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

[10] https://ec.europa.eu/trade/policy/policy-making/analysis/policy-evaluation/ex-post-evaluations/

[11] 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.*

Several Member States have also recently undertaken research into the utilisation of preferences. [12]

Q 15: "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 several new guides and fact sheets on CETA: IPR, rules of origin and mobility of professionals[13] and a step-by-step guide on the EU-Japan EPA providing market access information to companies completed by sectoral guides.[14]

The Commission in October 2020 launched its new portal **"Access2Markets" (A2M)[15]**, which offers a wealth of free, searchable, multi-lingual, and up-to date information. It covers 122 export markets outside the EU and 190 source markets. Companies can consult information on tariffs, taxes, quotas, import formalities and procedures for their imports and exports, and they can compare rules of origin across all EU trade agreements. Integrated into A2M is **ROSA**, the Rules of Origin Self-Assessment Tool, which guides users through a set of questions to assess whether or not their products fulfil the rules allowing users to qualify for preferential treatment under an EU trade agreement. ROSA also contains also clear instructions on the documentation required as proof of origin to obtain tariff preferences and includes a function to compare the rules across various agreements.

[12] Examples of complementary research by Member States include: Study by the Swedish National Board of Trade: "How companies use FTAs"; https://www.kommerskollegium.se/en/publications/reports/2021/how-companies-use-free-trade-agreements/ and "Who uses FTAs"?; 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 ; study by Belgium: "Belgian exporters and FTAs: A good match?" https://www.abh-ace.be/sites/default/files/Specific_studies/belgian_exporters_and_free_trade_agreements_-_02022021_-_ld.pdf ; Study by Ireland: "Four EU FTAs: Opportunities and Impacts for Ireland": https://www.gov.ie/en/publication/20514-four-eu-free-trade-agreements-opportunities-and-impacts-for-ireland/

[13] https://trade.ec.europa.eu/doclib/press/index.cfm?id=1720&title=CETA-factsheet-and-guides

[14] Guide for EU suppliers on government procurement in Japan: https://trade.ec.europa.eu/doclib/docs/2020/november/tradoc_159028.pdf ; step-by-step guide providing market access information to EU companies: https://trade.ec.europa.eu/access-to-markets/en/content/eu-japan-economic-partnership-agreement

[15] https://trade.ec.europa.eu/access-to-markets/en/home

Part II: FAQ on the use of tariff rate quotas

Q 1: "What are tariff rates quotas (TRQ) and where are they used"?

Tariff rate quotas (TRQ) are a tariff regime that allows a pre-determined quantity of a product to be imported at lower import duty rates (in-quota duty) than the duty rate normally available for that product (out-of-quota duty). TRQ are a flexible tool used in EU preferential trade Agreements to combine market openness with the protection of sensitive sectors, mostly in the agri-food sector.

In the EU, each TRQ has a 6-digit order number to identify specific conditions such as quantity, start/end date in the relevant legislation.

Q 2: "How is the TRQ fill rate defined and what is it used for"?

The TRQ utilisation rate is defined by the ratio of the quantity of product effectively imported under the quota compared to the size of the total TRQ. The unit of measure for TRQ quantity is mostly kilograms, but some specific products are measured in litres or in number of items. The TRQ fill rate provides an indication of the extent to which the potential trade concession for a given product granted by one party was exploited by the other party.

Q 3: "How are TRQ granted by the EU to partner countries managed"?

The TRQs granted by the EU are based on two different management methods:

- A set of TRQ is operated under a "First-come, first-served" method and the Commission Department responsible for its management is the Directorate-General for Taxation and Customs Union (DG TAXUD);

- Another set of TRQ is instead operated through the issuing of import or export licenses. These are managed by the Directorate-General for Agriculture and Rural Development (DG AGRI).

Q 4: "Which are the sources to calculate TRQ fill rates?"

For TRQs granted by the EU, the TRQ fill rates are compiled based on the information regarding imports under TRQ shared by the Member States authorities to the relevant Commission Services (DG AGRI or DG TAXUD, depending on the management method above described).

As regards TRQs granted to the EU by partner countries, indication about the fill rates are produced by the relevant third countries' authorities and collected via the network of EU delegations.

Q 5: "What could be possible reasons for low fill rates"?

There are various reasons why a TRQ for a specific product may have a low fill rate or may not be used at 100%, but it is usually due to economic or market reasons, as sometimes the exporting country does not have the capacity or the interest to supply a large volume of goods to the importing party, either because its production or exports are constrained (e.g. adverse harvest, transport disruption), or because its industry is no longer competitive enough to provide the goods at the price required by the destination market, or demand has shifted. In addition, the agri-food exporter might not be able to meet the import conditions that apply to that TRQ in the importing market, notably as regards Sanitary and Phytosanitary (SPS) measures.

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