

# How satisfied are SMEs with current free trade policy?

A joint project between the Schöpflin Stiftung and the BVMW (German Association for Small and Medium-Sized Businesses): a brief outline of the results of the BVMW members survey on TTIP and free trade.

## Background

At present negotiations are being conducted between the European Union and the United States on a transatlantic investment and free trade agreement. Such a *Transatlantic Trade and Investment Partnership (TTIP)* agreement between the two largest economic regions in the world goes far beyond dismantling tariff barriers to trade. The primary emphasis is instead on eliminating non-tariff barriers to trade and facilitating cross-border investment. Because of the comprehensive nature of the agreement, far-reaching repercussions for the economies involved are expected – and hence also for the conditions for small and medium-sized enterprises (SMEs).

In order to find out where German SMEs stand on current free trade policy and the negotiations over a possible TTIP agreement, the German Association for Small and Medium-sized Businesses (BVMW) in cooperation with the Schöpflin Stiftung commissioned a survey of its members on different aspects and topics in the areas of foreign trade and free trade and investment agreements.

## Structure and export orientation of the participating companies

A total of 800 SMEs took part in the survey. 46% of the companies surveyed have a workforce of 10 employees or fewer, one-third have between 10 and 49 employees, and a further one-fifth 50 or more employees. This means that large SMEs are overrepresented in the survey by comparison with the overall structure of SMEs in Germany: according to surveys conducted by the KfW-Mittelstandspanel (SME panel of the KfW Group), 91% of SMEs in Germany have a workforce of 10 or fewer employees. The survey participants also lie well above the average for the economy as a whole when measured by annual turnover. In total, 29% of the companies surveyed were from the manufacturing sector (SMEs as a whole: 7%) and 63% from the tertiary sector (SMEs as a whole: 75%).

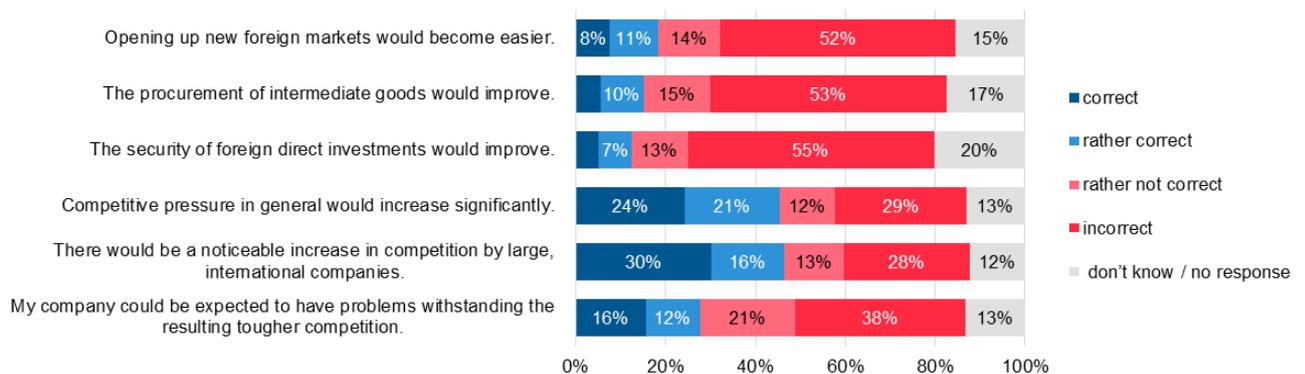
A large number of the companies surveyed are active in the export business: almost half of the

respondents produce part of their goods and services for export. Among companies from the manufacturing sector, the proportion is as high as 80%. These figures are significantly lower when averaged over all small and medium-sized businesses in Germany.<sup>1</sup> **The preferred destinations for exports are the European partner countries: for 83% of the exporting companies, the single European market is important or fairly important. This is followed at some distance by the economic regions Eastern Europe (37%), North America (35%), and Asia (29%). In addition, about one-sixth of the respondents have made foreign direct investments. Here, too, the primary focus is on the geographically close European countries.**

## New free trade agreements aggravate competitive pressure

A free trade agreement with the United States is not the only one that is currently under negotiation. The negotiations on the agreement between the European Union and Canada (CETA) have been largely concluded. At present, negotiations are also being conducted with Japan. What impact can the SME sector expect from these and other agreements? The participants in the survey are for the most part sceptical: only 18% and 15% of the companies, respectively, expect new free-trade agreements to lead to improvements in access to new sales markets and in the procurement of intermediate goods. 12% anticipate a higher level of security for their foreign direct investments (Figure 1). Companies with a high share of exports take a much more positive view of the possible effects of free trade agreements. Nevertheless, here too the proportion of companies which are confident that possible future free-trade agreements will lead to improved access to foreign markets is less than 50%. At the same time over half the respondents expect that competition would increase noticeably following the conclusion of new free trade agreements. 28% of companies estimate that possible new competitors could even represent a potential threat to their existence.

Figure 1: Discussions are currently being conducted over the conclusion of new free trade agreements. How would your company be affected?



## Design of the boundary conditions for foreign trade: Respondents desire protection

<sup>1</sup> Scarcely any meaningful data are available on the foreign trade activities of SMEs. A clue is provided by the German Federal Statistical Office. According to its calculations, in 2011 just 7% of all SMEs exported to countries in the European Union, whereas in the manufacturing sector this figure was 20%.

In the context of the survey, the respondents also had an opportunity to assess the importance of other selected aspects for their company in shaping the boundary conditions for foreign trade. The participants were particularly interested in safeguards in various areas. Approximately 80% of those surveyed rate the protection of their own data and of customer data as important or fairly important. Major importance is also attached to protection of intellectual property (71%), against economic espionage (69%), and of regional product designations (61%).

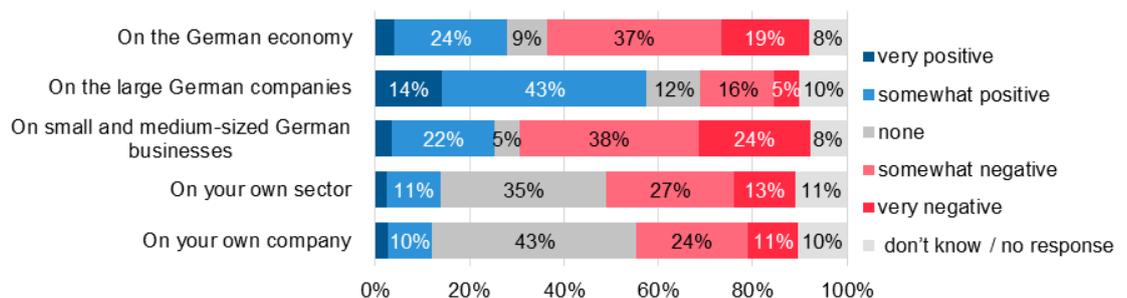
In the area of export promotion, the respondents are most interested in access to information about requirements in foreign markets. For 51%, this aspect is important or fairly important. Only about one third of the respondents attached similar importance to measures for export financing – access to loans, venture capital, or insurance and guarantees. For just under 30% of the respondents, access to public procurement contracts in foreign markets is important or fairly important.

Simplified visa regulations for both short-term and long-term stays are a major concern especially of companies which are closely integrated into cross-border value chains because they have a high share of exports or have made foreign investments. This also holds for the assessment of the impact of currency fluctuations on their companies.

## Most respondents are sceptical about TTIP

A majority of the respondents expect that the implementation of a possible TTIP agreement will have negative effects on the German economy and on German SMEs. In their view, large companies will be the main beneficiaries of TTIP. By contrast, a large number of respondents do not expect any effects on their own sector or their own company, though numerous respondents anticipate negative effects (Figure 2).

Figure 2: What effects do you expect in general from the possible conclusion of a TTIP agreement between the EU and the USA?



A total of 20% of the companies surveyed expressed an interest in the abolition or reduction of tariffs in the context of TTIP. Only among the group of highly export-oriented companies which export more than one-quarter of their goods and services would a majority of respondents benefit from such a regulation. The alignment of technical regulations, standards, and norms would meet with somewhat higher approval with 33%. By their own admission, over 50% of respondents would not benefit from an alignment. Two-thirds of the companies would prefer such harmonisation to occur in the context of multilateral rather than bilateral agreements.

The climate of opinion is quite clear as regards the administration of justice. Only 17% of companies surveyed consider the investor-state arbitration tribunals, which were the focus of controversial discussion at the time of the survey, to be an important tool for enforcing claims for damages in foreign markets. By contrast, more than a third of the SMEs surveyed are afraid

that such a mechanism could operate to their disadvantage vis-a-vis their foreign competitors. The call for guarantees of non-discriminatory access for European and US companies to courts in their respective foreign markets meets with broad approval, namely of two-thirds of the participants.

## **Companies Call for Better Information on TTIP**

A great many companies complain about what they perceive to be an insufficient range of information on the proposed TTIP agreement. Survey respondents said they wanted better and more comprehensive information on the subject from both the national government and politicians (76%) and from business associations (62%).