

## Idea Paper: WTO SME Initiative Now!

The declaration of over 80 members of the World Trade Organization (WTO) for an informal work programme for small and medium-sized enterprises (SMEs) is a ray of hope of the largely unsuccessful 11th WTO Ministerial Conference in December 2017. SME-inclusiveness in trade has been advanced by the European Union (EU) following the [initiative of the DIHK](#) as well as other parts of the European economy ([EUROCHAMBRES: Making MC11 Think Small First](#)). In turbulent times for global trade, the current talks of the WTO Working Group for MSMEs are all the more important.

SMEs play a key role in growth and competitiveness. According to the World Employment Social Outlook 2017 of the International Labour Organization, ILO, the number of full-time jobs in SMEs has more than doubled in the last 10 years. In the European Union alone, 6 million jobs depend on 600,000 exporting SMEs. Yet there are more than 20 million SMEs in the EU. Although entrepreneurs think more and more internationally, the gap between exporting SMEs and those who could do international business is still large. Not only in Europe, but worldwide, the integration of SMEs into global value chains holds great potential. This is where WTO members should start an ambitious SME initiative to set the right framework conditions.

### In a nutshell: What does the economy demand?

- **SMEs must become a central aspect of the WTO agenda:** WTO members should agree on an ambitious roadmap with the clear aim of facilitating international business for small and medium-sized enterprises. Eventually, there should be a mechanism that makes SME friendliness a central element of the WTO rules in tune with the leitmotif "Think Small First".
- **Transparency is essential:** The extensive spaghetti bowl of global trade agreements and rules often deters businesses. This could be remedied by, for example, a central website that provides exporters with all the information they need for exporting, free of charge and updated daily. Here, the EU proposal to strengthen state transparency obligations vis-à-vis companies is of great importance.
- **Stakeholder participation:** Obligations to analyse the impact of new trade legislation on SMEs, the active involvement of SME representatives - in particular of chambers entrusted with sovereign tasks - in the legislative process and the monitoring of trade regulations already enacted with regard to SME friendliness.

## EU-WTO reform proposals

In view of the increasing threat to the rule-based multilateral trading system as well as improvements needed, the WTO has to be strengthened. It is therefore right and important for the EU Commission to contribute to the WTO reform debate with proposals. German businesses support the [EU proposals to modernise the World Trade Organisation](#) and ask all WTO members to advance this necessary reform process constructively and rapidly.

## Why SMEs?

The creation of the informal MSME working group at the 11th WTO Ministerial Conference in 2017 was an important first step. Its discussions should have the clear objective of agreeing on an ambitious official work programme at the next WTO Ministerial Conference in 2020. The focus here must be on making international business easier especially for SMEs. "Think Small First" can contribute to more companies seizing international business opportunities and thus spread the positive effects of trade more widely. The consistent orientation of WTO regulations towards SMEs should become a matter of course. All measures to promote SMEs must be non-discriminatory, because simple rules help all companies.

To exploit untapped potential for SMEs, but also for all other enterprises, the EU should set a good example by launching a comprehensive study on possible facilitations for SMEs. Future discussions and activities should be based on the results of this study.

## Access to information and regulatory transparency

Improved transparency and access to trade-related information is urgently needed. The EU proposal to strengthen state transparency obligations of WTO members, including through counter-notifications, is very important in this respect. WTO members could, for example, make such notifications on behalf of members who do not comply with their notification obligations, so that WTO-incompatible measures can be identified. The [Global Trade helpdesk](#) and the [ePing SPS/TBT notification alert system](#) are useful tools that should be extended. Trade-relevant regulations of all members should always be up-to-date, complete, accurate and easy to find on an easy-to-use and free website. It is important for the acceptance of German companies that this is not only available in WTO languages, but also in German. Based on the German translation service at the United Nations, which the German-speaking countries have successfully operated in New York for decades, a comparable translation service could also be set up with the aim of making all WTO documents promptly available in German.

[As already demanded](#) before the 11th WTO Ministerial Conference, all members should commit themselves to the establishment of national SME contact points and introduce the Think Small First principle - legislative projects should have to undergo an SME check with consultation of SME representatives. SMEs need to know what burdens or relief they will face with new legislation. Jointly working on solutions, involving all relevant representatives (associations, legislators, companies), can ensure that trade legislation is practicable and will benefit business. Contact points from the Trade Facilitation Agreement (TFA) and in particular chambers should be used for this purpose. The aim of the TFA is to simplify international

import and export regulations as well as customs formalities and transit regulations. The TFA entered into force at the beginning of 2017. Consistent implementation of the agreement will ensure greater transparency and create better opportunities for integrating SMEs into global value chains and curb corruption.

### **Trade Policy Reviews (TPR) and Notifications**

Strengthening WTO notification obligations and the Trade Policy Review mechanism are two important areas in which existing WTO rules can be extended to make day-to-day business easier for SMEs. Member states must take their notification obligations seriously. Longstanding delays of notifications undermine the binding nature of all commitments. Here, more positive incentives should be applied - for example in the area of capacity building, e.g. through training programmes. In addition, WTO members should be obliged to notify and publish final legislative texts - not only, as established, in the draft version as part of the TBT obligations (WTO Agreement on Technical Barriers to Trade). According to TBT, technical regulations must not present unnecessary barriers to trade as a purpose or effect. Governments must therefore notify all WTO members of proposed measures that can be viewed in the [TBT database](#). For priority SME sectors, extensions of notification obligations could be decided in the medium term.

The Trade Policy Review (TPR) is an important instrument for presenting the trade policies of the members - also to SMEs. In all future TPRs, an SME chapter should examine the effects of trade policies on SMEs to better illustrate their impact. These analyses would particularly help least developed countries to improve their SME policies. The commitment of the SME Working Group members to implement this themselves would be an important step forward.

### **Trade Facilitation**

Studies by the International Trade Center ITC like its SME Competitiveness Outlook provide valuable information on how SMEs can be supported in global trade. In general, trusted third parties, such as chambers of commerce, should be institutionally strengthened to support SMEs handling customs procedures.

Customs formalities are often a major hurdle for SMEs. The standardisation and digitisation of import and export documents should therefore be promoted. The electronic depictability of customs documents is particularly important here. In many countries, the obligation of local representation by customs agents is also an obstacle for SMEs.

Mutual recognition of Authorized Economic Operator concepts based on internationally recognized standards should be promoted to relieve especially SMEs of bureaucracy.

Single Windows for customs, which enable economic operators to store all the information required for cross-border trade electronically and only once, would also make life much easier for SMEs.

## **Rules of Origin**

SMEs suffer most from the overwhelming complexity of rules of origin. With every new free trade agreement, the situation becomes more complex. There is an urgent need for action at multilateral level to enable companies to benefit from trade preferences through harmonisation and simplification. The simplifications to rules of origin adopted at the 10th WTO Ministerial Conference concerning the least developed countries could serve as a model here.

In the agreement on rules of origin, WTO members have agreed to negotiate harmonised non-preferential rules of origin. These negotiations are still ongoing and some 40 WTO members currently apply national rules of origin for non-preferential purposes. A resumption of WTO negotiations on rules of origin would benefit particularly SMEs. Increasingly complex and divergent global rules of origin place a heavy burden on business.

Annex II of the Agreement on Rules of Origin sets out rules on reaching preferential origin. The ninth and tenth WTO Ministerial Conferences adopted additional instruments relating to non-reciprocal preferential regimes, i.e. trade incentives for the least developed countries. In the area of preferential rules of origin, too, further multilateral harmonisation would facilitate international trade, at least through modern global guidelines, especially for SMEs.

In addition, all WTO members should ratify and comply with the provisions of the revised Annex K of the Kyoto Convention of the World Customs Organisation on definitions, principles, standards and recommended practices with regard to origin.

## **Global De Minimis**

Members should promote the introduction of a global De minimis, i.e. refrain from levying customs duties on goods below a certain value. This could be of decisive help to SMEs in their integration into global value chains. The De minimis threshold should reach a balanced level, but at least prevent the improper splitting of shiploads.

## **Institutional Embedding**

New issues, and in particular those that cover almost all areas of the WTO - which is the case for SMEs - need functioning institutional mechanisms so that future initiatives can be dealt with in a clearly defined arena, coherently and structurally. To this end, the WTO should set up an SME Committee to promote the WTO SME agenda and to ensure that the implementation of the results of negotiations (e.g Trade Facilitation Agreement) is SME-friendly and sustainable.

In addition, a permanent and structured dialogue with SMEs and their representatives, in particular the chambers, should be ensured. This should be implemented in the form of an SME advisory body that can accompany and advance the discussions as a competent interlocutor. The advisory body would also facilitate the exchange of best practices among SME representatives, such as the chambers.

The following countries participate in the SME Talks:

Afghanistan; Albania; Antigua and Barbuda; Argentina; Australia; Bahrain, Kingdom of; Belize; Brazil; Brunei Darussalam; Canada; Chile; China; Colombia; Costa Rica; Côte d'Ivoire; Dominica; the Dominican Republic; Ecuador; El Salvador; European Union; Grenada; Guatemala; Guyana; Honduras; Hong Kong, China; Iceland; Israel; Japan; Kazakhstan; Kenya; Korea, Republic of; Kyrgyz Republic; Lao PDR; Liechtenstein; Malaysia; Mexico; Moldova, Republic of; Montenegro; Myanmar; New Zealand; Nicaragua; Nigeria; Norway; Pakistan; Panama; Paraguay; Peru; Philippines; Qatar; Russian Federation; Saint Kitts and Nevis; Saint Lucia; Saint Vincent and the Grenadines; Singapore; Switzerland; The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu; the former Yugoslav Republic of Macedonia; Turkey; Uruguay and Viet Nam



Source: Own graphic