



# — Global Trade Management Agenda 2015

The top priorities in global supply chain management, the importance of preferential agreements, and the risks and opportunities of the planned free trade agreement TTIP.

# Contents

<b>Executive summary</b>	<b>03</b>
<b>Part I: Global Trade Management 2015</b>	<b>05</b>
1. Key GTM priorities in 2015: compliance is top issue	05
2. Status quo in GTM: businesses well positioned	07
<b>Part II: Preferential agreements</b>	<b>08</b>
1. Preferential agreements in day-to-day business	08
1.1 Current use of preferential agreements	08
1.2 Importance of preferential agreements in businesses – now and in the future	09
2. Pros and cons of preferential agreements	11
2.1 Reasons for and against the use of preferential agreements	11
2.2 Barriers to the use of preferential agreements	13
3. Preferential agreements in the company	14
3.1 Interest among internal and external stakeholders	14
3.2 Experience with free trade agreements	15
3.3 Status quo: knowledge management on the subject of free trade agreements	16
<b>Part III: TTIP (Transatlantic Trade and Investment Partnership)</b>	<b>17</b>
1. Basic assessment of TTIP	17
1.1 Spontaneous associations with TTIP	17
1.1 Personal opinions of respondents about TTIP	19
2. TTIP: negotiating process	19
2.1 Transparency and influence in the negotiating process	19
2.2 Implementation date of TTIP	20
3. Opportunities, risks, and effects of TTIP	21
3.1 Effects on the employment and financial situation of businesses	21
3.2 Opportunities that TTIP offers businesses	23
3.3 Risks that TTIP poses to businesses	24
3.4 Effects on activities in US market	25
4. TTIP in day-to-day business	26
4.1 Reactions to TTIP	26
4.2 Effects on logistics	28
4.3 Need for action in logistics IT	29
<b>Participants: global trade and logistics experts</b>	<b>31</b>
<b>Document credits</b>	<b>34</b>

## Executive summary

This year's "Global Trade Management Agenda" focuses on the burning issues of the day: In addition to the top priorities in global trade management (GTM) in 2015, these include the importance of preferential agreements and the business community's assessment of the planned Transatlantic Trade and Investment Partnership (TTIP) between the EU and US. The Global Trade Management Agenda 2015 is based on the results of an online survey of logistics and global trade experts conducted in the summer of 2014. The study is a collaborative project of AEB and Baden-Württemberg Cooperative State University (*Duale Hochschule Baden-Württemberg*, DHBW) in Stuttgart. Here is an overview of the key findings:

### Global trade management

#### Key priorities

More and more businesses seek legal protection. Worldwide crises have a direct impact on global trade management and the risk that global enterprises perceive in foreign trade. That's why such companies are turning more attention to compliance and adapting their processes to ever-changing regulations. Direct costs savings, on the other hand, play a comparatively minor role in the GTM of the businesses surveyed.

#### Challenges well under control

The businesses participating in the study are holding up well amid the crises and report being already well equipped when it comes to complying with the relevant regulations and restrictions. They see much more room for improvement when it comes to tapping into new markets, however. The training and continuing education of employees is another important topic.

### Preferential agreements

#### Routine today – even more important tomorrow

Businesses regard free trade agreements as part of their everyday operations. International activities without the use of available preferential agreements are the exception. Most businesses – especially those heavily involved in the US market – expect the issue to grow even more relevant over time.

#### Cost-benefit ratio is not optimal

Lower costs are typically the primary motivator for businesses to use preferential agreements. But potential savings are offset by relatively high expenses. For this reason, most of those surveyed take a more critical view of the cost-benefit ratio. But the respondents, especially those in larger enterprises, find the regulations to be essentially clear.

#### Customers are main drivers

The overwhelming majority of businesses report that customers expect to receive preference documents for their goods. This expectation is one of the primary reasons named by participants in the study for dealing with the subject of preferences. The strong customer interest means that in very many businesses, the topic has taken hold not only in management accounting, taxes, and customs but also in sales. There is even a growing interest in free trade agreements among upper management.

#### Barrier: compliance of all participants

Complex regulations make compliance more difficult for every single business. In addition, companies count on their suppliers to also be familiar with the rules, apply them correctly – and be willing to apply them.

This dependence is the most significant barrier to the use of preferential agreements.

### **Knowledge management not yet up to par**

Most participants in the study have personal experience with free trade agreements and generally confirm the same for their logistics departments. But in most cases, this knowledge is not written down, and only very seldom is it systematically and consistently documented.

## **TTIP – Transatlantic Trade and Investment Partnership**

### **Consumer protection and European standards**

When respondents are asked for their spontaneous associations with TTIP, the results are mostly negative. The main reasons given are the topics covered in all the media: genetic engineering, consumer and environmental protection, and the threat to democracy from special protections for investors. But one out of four spontaneous responses also mention positive effects for global trade and the economy.

### **Behind closed doors**

The general sentiment toward TTIP among the surveyed businesses is rather guarded and skeptical. The main reason is a perceived lack of transparency surrounding the processes and content of the negotiations. The personal assessments cover a broad range from “important advantages” to “major threat.”

### **Relevant for nearly all businesses**

Most experts assume that TTIP will have a big impact on their companies, though the emphasis is not so much on financial performance or the number of employees, where the impact is expected to be much more modest. One interesting note: Respondents from the UK expect a much stronger positive impact on the economic development of their companies.

### **Opening markets – to competitors as well**

Businesses see in TTIP a good opportunity to dismantle non-tariff barriers to trade. Easier access to markets applies to other providers as well, of course, so experts are also aware of the risk that competitive positions could shift.

### **No hurry – no specific plans**

Since most of those surveyed assume that TTIP will not take effect in the next two years, they have not generally planned any concrete measures. Two approaches can be expected: adjustments to routine operations and continuing education for employees.

## **Participants**

The survey included a total of 177 global trade and logistics experts in businesses from various industries with an emphasis on Germany and the United Kingdom.

# Part I: Global Trade Management 2015

## 1. Key GTM priorities in 2015: compliance is top issue

What are the top global trade issues in 2015? We included this question again in the second “Global Trade Management Agenda” survey and asked the experts about their key priorities in the year ahead (see Figure 1). The result: The subject of compliance is front and center. Participants in the study see compliance with embargo regulations as their most important responsibility. Second and third place go to assuring legal protection and implementing changes to customs law, which can also be classified

under the subject of compliance. Minimizing supply chain risks, which climbed from eighth place last year to fourth place this year, can also be seen as relating to compliance in the broader sense.

The findings must be viewed in the context of the current crises taking place around the globe. Developments in Russia and Ukraine, in particular, color perceptions of the risks of global trade. Businesses today face the challenge of adapting their processes to frequently changing regulations.

### Key GTM priorities in 2015

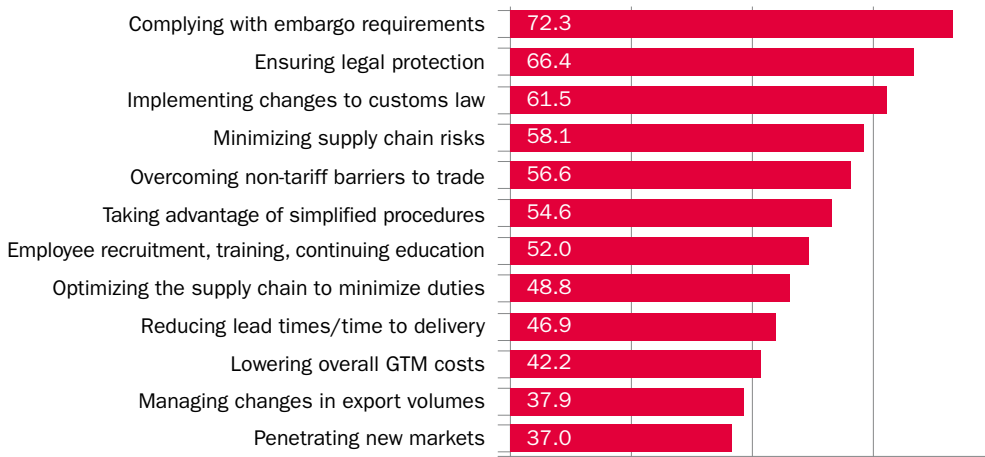


Figure 1: GTM tasks with high or very high priority (in percent)

This also explains one finding of the study that seems surprising at first glance: Cost savings are not currently a very high priority of companies in global trade management. In the list of top priorities among all the businesses surveyed, optimizing the supply

chain to minimize duties and lowering overall GTM costs ranked fifth and third to last, respectively.

The importance assigned to this topic varies greatly by the size of the company, however. Controlling overall GTM costs is much more

important in large enterprises than in companies with fewer than 500 employees. Some 56% of large enterprises rank this as important or very important – in contrast to

the less than 30% of companies with under 500 employees (see Figure 2). The picture is similar when it comes to optimizing the supply chain to minimize duties.

**Importance of cost-cutting as a goal  
– based on company size –**

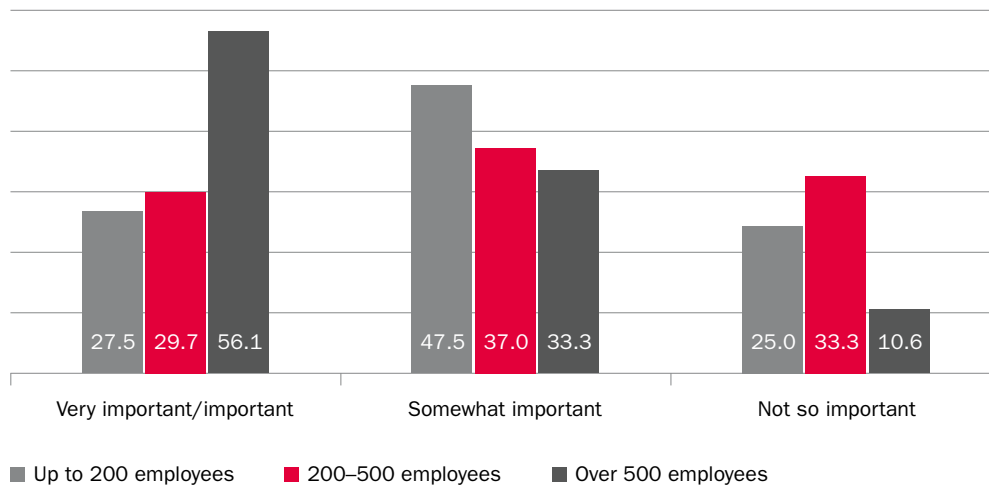


Figure 2: Cost-cutting as a goal (in percent)

## 2. Status quo in GTM: few shortcomings on top issues

Despite the current dynamics and uncertainty in global trade amid ever-changing rules and regulations, businesses seem to be successfully coping with today's challenges. The study finds that respondents are relatively well positioned in the broader issue of

compliance, for example, which ranks as a high priority for most companies (see Figure 3). The major weakness here lies in guaranteeing legal protection, with 28.4% of participants seeing a need for improvement or major shortcomings here.

### Status quo in GTM – tasks with major shortcomings –

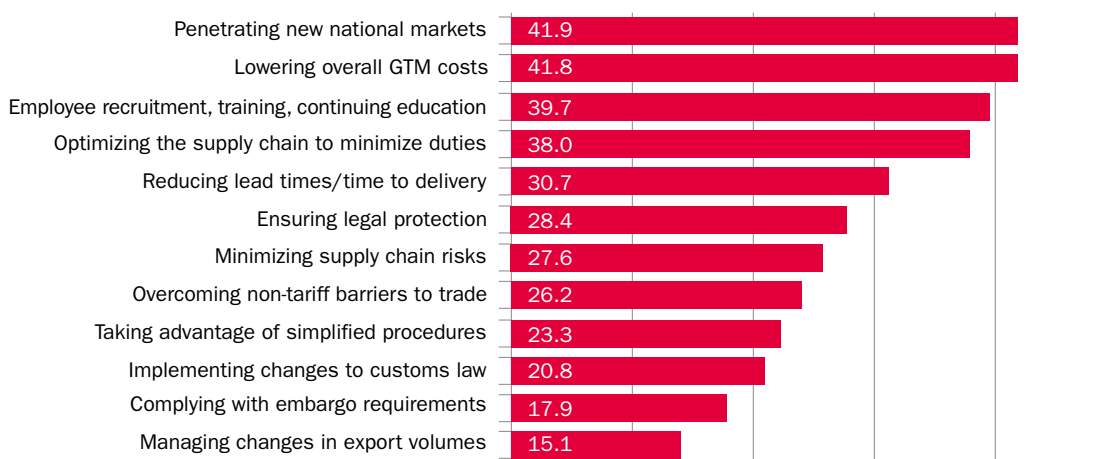


Figure 3: In which GTM tasks do companies have the most shortcomings? (in percent)

Overall, experts see the greatest need for action in the penetration of new markets, with 42% seeking greater efficiency here. In general, businesses seem to have done their homework in the areas that they consider very important, so they are relatively well positioned there. Conversely, however, businesses are still behind in optimizing those areas that they do not consider very high priorities. Some 40% of respondents report lagging significantly behind in the area of cost savings, for example, or feel that improvements are needed.

Here, too, the results vary greatly by the size of the company: Some 63% of companies with fewer than 200 employees feel that improvements are needed or see major shortcomings here, while the same figure is under 30% for businesses with more than 500 employees. But overall, businesses seem to have a better handle on their costs. Last year, some 47% of participants cited shortcomings here.



## ■ Part II: Preferential agreements

In recent years, bilateral and multilateral trade agreements have evolved into a very effective tool in global trade. Although this approach violates the basic principle of the World Trade Organization (equal treatment of all WTO member states), the benefits of bilateral and regional trade agreements are so strong that the WTO regularly approves them anyway.

Trade agreements come in many different varieties. This study looks at both preferential agreements and free trade agreements. Preferential agreements as a whole regulate

the relationships among nations, conferring trade privileges such as lower customs duties for participating partners.

Free trade agreements are international agreements that ensure free trade between the signatory nations and eliminate trade barriers such as customs duties or volume restrictions. Preferential agreements are integral components of free trade agreements.

### 1. Preferential agreements in day-to-day business

#### 1.1 Current use of preferential agreements

All or nothing – that’s the approach most companies take. If a free trade agreement is in place with another country, it is generally used by the companies that do business there. International activities without preferential agreements are the exception (see Figure 4). All in all, 78% of respondents currently make use of preferential agreements in their company. What’s striking is how sharply Germany and the UK diverge on this issue. In the UK, just under 64% of respondents are currently taking advantage of existing free trade agreements, while in Germany the figure is 84%. This means that in the UK, the subject of preferences does not carry so much weight for cost optimization. But it’s a safe bet that this will change in the coming years.

A look at the statistics by country shows Switzerland and the EEA member states of Iceland, Liechtenstein, and Norway leading the pack. This is understandable, given their geographic proximity and robust trade relations. What’s more, trade agreements have been in place with these countries for years. Ocean transport to and from the Western Pacific States, on the other hand, is rather negligible, so preferences in place there are hardly used. Overall, preferences that are available in trade relationships are also generally used.

Ukraine is currently a special case. Goods movements into the EU are and have been given preferential treatment (unilateral agreement). The renegotiated Association Agreement between the EU and Ukraine, which goes much further than the existing unilateral agreement, has been ratified but



**Global trade per countries and regions  
– with and without preferential agreements –**

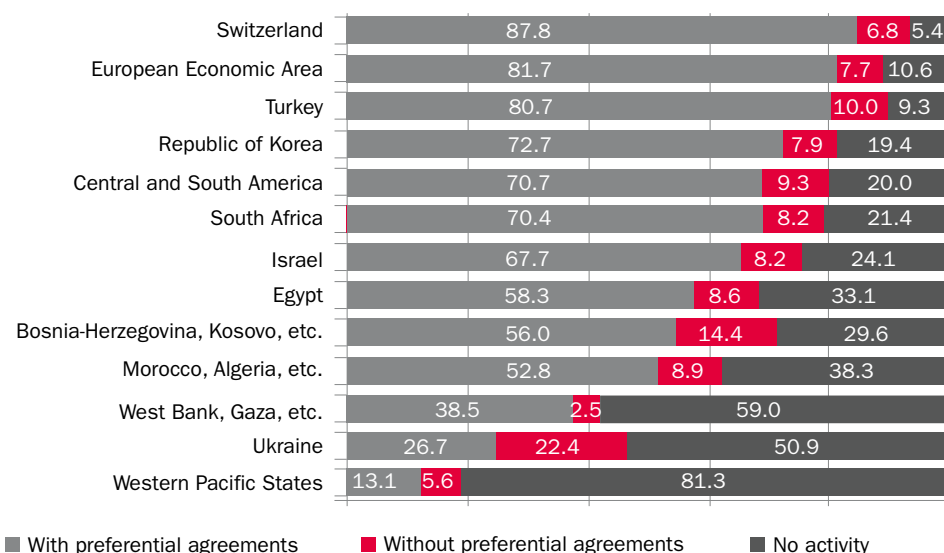


Figure 4: Use of preferential agreements <sup>1)</sup> (in percent)

not yet applied due to the precarious political situation. Implementation is planned for late 2015. The survey results thus reflect the current legal uncertainty.

respondents say that the use of preferential agreements is currently “very important” for their company, with 30% “completely” agreeing (see Figure 5).

**1.2 Importance of preferential agreements in businesses – now and in the future**

Given the high percentage of companies that use preferential agreements, it is not surprising that most businesses consider the issue important. In fact, nearly 70% of

<sup>1)</sup> The survey asks about the various countries and associations of countries summarized in Figure 4. For the purposes of the study, “European Economic Area” includes the nations of Iceland, Liechtenstein, and Norway. “West Bank, Gaza, etc.” also includes Jordan, Lebanon, and Syria. “Morocco, Algeria, etc.” also includes Tunisia and the Spanish enclaves of Ceuta and Melilla. “Bosnia-Herzegovina, Kosovo, etc.” also includes the Republic of Macedonia, Albania, Serbia, Andorra, the Faroe Islands, San Marino, the Republic of Moldova, and Montenegro. And finally, “Central and South America” also includes Mexico.

### The use of preferential agreements is currently of great importance in our company

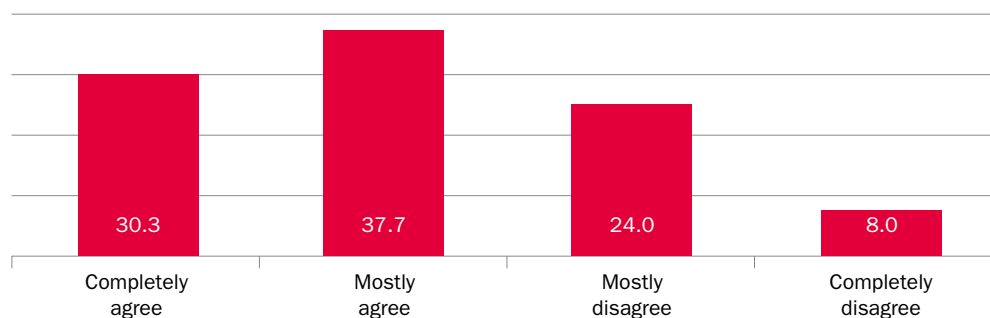


Figure 5: Current importance of preferential agreements (in percent)

And the issue will be even more important in the future, predict 72% of participants in the study (see Figure 6). Those who already consider preferential agreements very important today are the most likely to predict an even greater role for preferential agreements in their global trade tomorrow.<sup>2)</sup> It is noteworthy that this view is especially prominent among businesses that generate

an appreciable share of their revenue in the US market. More than 96% of companies that earn more than one-fifth of their revenues in their US business see a growing importance in this issue. This is certainly influenced by the current talks surrounding the TTIP free trade agreement (see also Part III of the study).

### The use of preferential agreements will become more important in our company

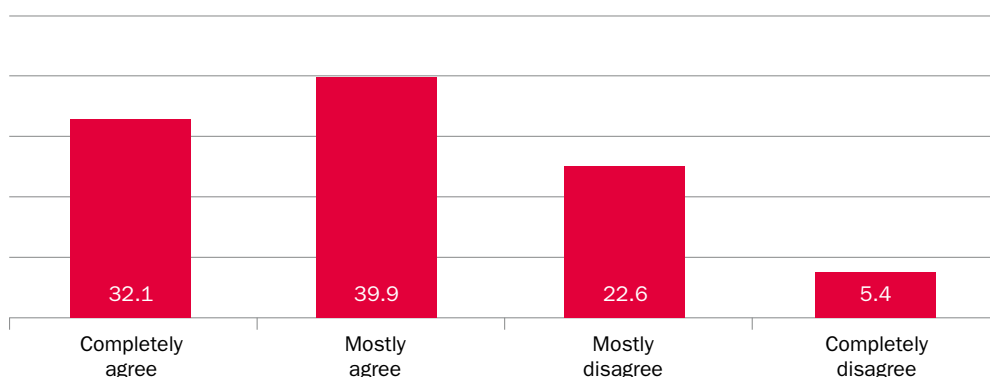


Figure 6: Future importance of preferential agreements (in percent)

<sup>2)</sup> The issue will become more important according to 88% of those for whom preferential agreements are very important today, compared with only 41% of those who do not yet consider the issue very important.

## 2. Pros and cons of preferential agreements

### 2.1 Reasons for and against the use of preferential agreements

As outlined above, some 78% of those surveyed use preferential agreements in their companies. The primary motivation for companies is to save costs, with lower customs duties cited most frequently by nearly 84%. Running a close second is customer expectations for such certifications, with some 80% citing this argument (see Figure 7). The reduction of import restrictions

plays a role in specialized markets where market access or trade privileges are an issue, with about half of respondents still receptive to this issue.

It's interesting that the cost-benefit ratio is often viewed quite critically. Only about 54% cite this as a reason for using preferential agreements, with UK businesses much more convinced (70%) of a favorable cost-benefit ratio than their German counterparts (48.5%).

#### Reasons for using preferential agreements



Figure 7: Why are preferential agreements used? (in percent)

The most commonly cited reasons against the use of preferential agreements are the complex processes associated with them and high expenses for the entire company, with some 67% of respondents making these arguments. These two points also yield an unfavorable cost-benefit ratio for preferen-

tial agreements according to some 45% of the companies surveyed (see Figure 8). Lack of knowledge about the conditions and processes, on the other hand, is named by less than half (35%) as a reason for not using preferential agreements.

### Reasons against using preferential agreements

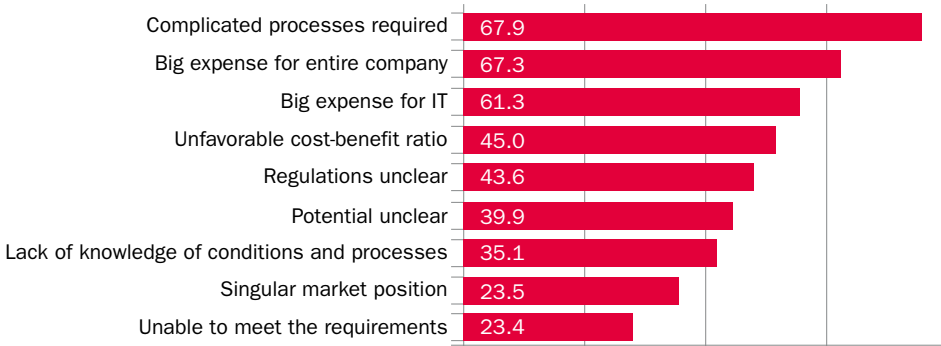
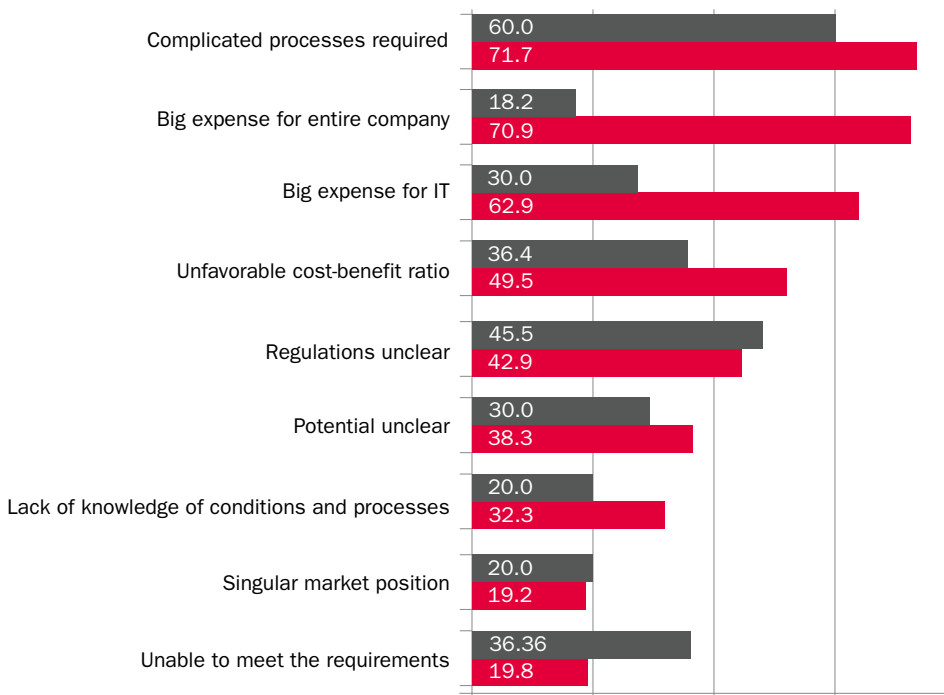


Figure 8: What reasons speak against the use of preferential agreements? (in percent)

The reasons against using preferential agreements vary by the size of the company. The results show, for example, that smaller businesses with fewer than 200 employees are not so familiar with the issue. In this sub-group, nearly 54% cite lack of knowledge as an argument, while 61% find the regulations unclear.

The comparison by country between Germany and the UK also reveals a wide gap on this question (see Figure 9), with expectations for company-wide and IT expenses in particular much higher in Germany (70.9% and 62.9%, respectively) than in the UK (18.2% and 30%).

### Reasons against using preferential agreements – comparison Germany/UK –



■ Germany (includes the participants of the German study, see p. 31)

■ UK (includes the participants of the English study, see p. 31)

Figure 9: By country: Reasons against using preferential agreements (in percent)

## 2.2 Barriers to the use of preferential agreements

Where are the greatest challenges in the use of preferential agreements? Some 81% of the experts who were surveyed see the greatest problem in compliance (see Figure 10). The rules for the agreements are complicated to begin with, and ensuring compliance with these rules in a dynamic business environment is a real challenge. Changes in your sourcing, renegotiated prices with your suppliers – all this can affect the preferential status of goods.

Businesses must also rely on their suppliers to issue proper supplier's declarations. Participants in the study find this to be a frequent source of headaches, as three statements by participants show (see right margin).

Compliance is also critical due to the high financial risk exposure from false entries. If goods are exported with incorrect preference documents and the mistake is detected, the importer is responsible for the back-payment of fees. Normally, importers demand reimbursement of these expenses

from the supplier, and this can have a negative impact on their future partnership.

More than two-thirds of participants in the study find it very challenging to get their own suppliers on board. The decision to use preferential agreements does not lie with individual businesses alone. It leads to interdependencies – between upstream suppliers in Germany and elsewhere in the EU, for example.

A company's influence often depends on its position in the value chain or the current balance of power in the marketplace. But a good market position is not always enough – especially when it comes to the aforementioned challenge of compliance. This is the case if, for example, a company is so strong that suppliers confirm everything just so that they can do business with the company. Here it might be safer to do without the benefits of preferential agreements.

Some 59% of those surveyed also have the problem of convincing their own in-house purchasing department to work with

*Participants in their own words*

*"... A large majority of our suppliers know nothing about preferences or the mechanisms of long-term supplier's declarations (LTSDs)."*

*"... very dependent on the - hopefully accurate - information on origins provided by suppliers."*

*"It is a challenge to convince suppliers that an LTSD is necessary ..."*

### High barriers when using preferential agreements

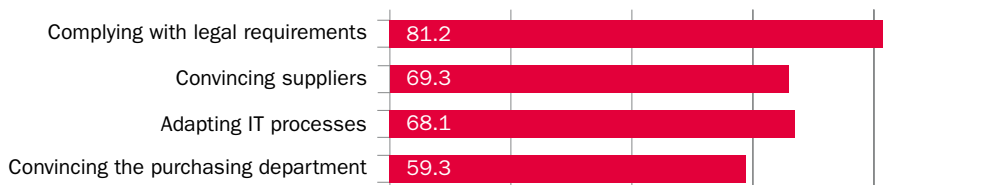


Figure 10: Barriers to the use of preferential agreements (in percent)

preferential agreements. The incentive system for purchasing departments is generally oriented primarily toward purchase prices and less on optimizing total costs – a genuine challenge for many companies, since the

disadvantage of not using preferential agreements often more than erases the advantage of lower purchase prices. In such situations, companies would do well to rethink their management and incentive systems.

### 3. Preferential agreements in the company

#### 3.1 Interest among internal and external stakeholders

Which stakeholders in and around the company push preferential agreements? As expected, interest is especially strong – at more than three-quarters of companies – in the areas of management accounting, taxes, and customs, with 45% even showing a “very strong interest” (see Figure 11). But as indicated earlier, the decision of whether to use preferential agreements depends on more than just cost. The issue is strongly customer-driven, as the responses to this question also confirm. Some 76% of respondents report that customers have a strong or very strong interest in preferential agreements. This also explains why the sales departments of most of the businesses are interested.

Meanwhile, the lowest level of interest in the subject is seen among purchasing departments and direct suppliers. This aligns with the findings in the previous chapter, where 60% of respondents regard it as a challenge to convince the purchasing department to use preferential agreements.

It is worth noting that the issue is attracting increased attention among top-level executives, with a significant 43% of surveyed companies reporting interest among upper management. This means that the understanding of tax optimization is not reduced merely to the issues of corporate taxation. Instead, top management seems to be increasingly recognizing the significance of preferences for their own companies.

Strikingly, the customers of respondents in the UK show much less interest (46%) than the customers of German companies (85%). Among suppliers, it's just the opposite (UK: 27%, Germany: 17%).

### High or very high interest in the subject of preferential agreements

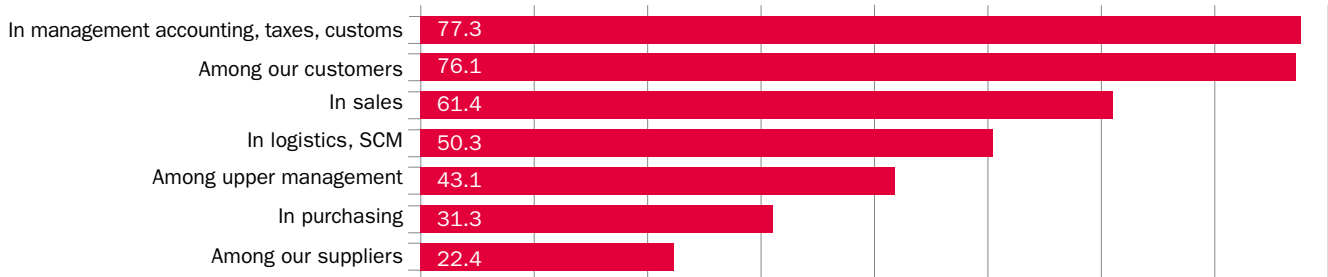


Figure 11: Interest in the subject of preferential agreements in the company (in percent)

### 3.2 Experience with free trade agreements

One intriguing aspect in the use of preferential agreements is not only who acts as the advocate in the companies but also what kind of personal experiences respondents report here. After all, personal experience is a strong indicator for the expertise of the participants and thus for the quality of the survey results.

Remarkably, more than two-thirds (67%) of those surveyed report personal experience in implementing trade agreements (see Figure 12).

This average obscures the extent to which the responses depend on how big the company is, however, with a direct link between the amount of experience and the size of the business. While about one in two respondents (54%) in smaller companies have pertinent experience, an impressive four out of five (82%) in large enterprises report such experience.

Expertise is not isolated to individuals, either. More than half of those surveyed indicate that they have experts within their own logistics department.

### Personal experience with free trade agreements

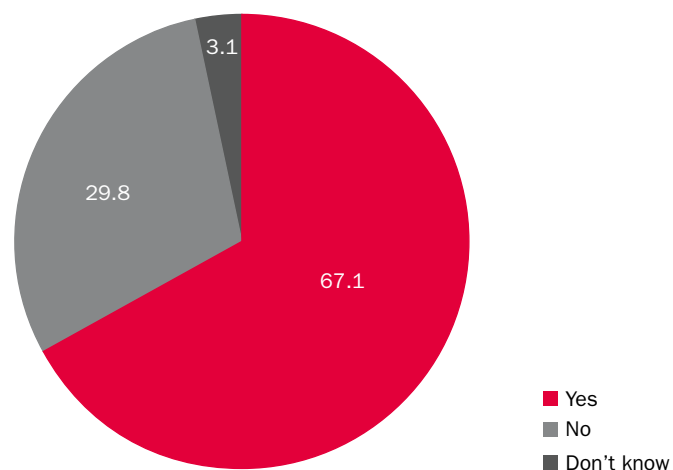


Figure 12: Personal experience with free trade agreements (in percent)



### 3.3 Status quo: knowledge management on the subject of free trade agreements

So the businesses do have experience with free trade agreements – but major shortcomings can be seen in how this accumulated experience is documented (see Figure 13). Only a little more than one in four respondents indicate that information acquired in the company has been documented in writing. More than half have not documented anything. Obviously, companies are still relatively far away from practicing consistent, systematic knowledge management.

The form of documentation also reveals sharp differences in the level of sophistication. The self-assessments range from rather unstructured (“saving e-mail correspondence” and “notes”) to singular approaches (“creating process descriptions and standard operating procedures”) to systematic knowledge management (“customs manual” or “implementation in the system” or “technical specifications”).

#### Has experience with free trade agreements been documented?

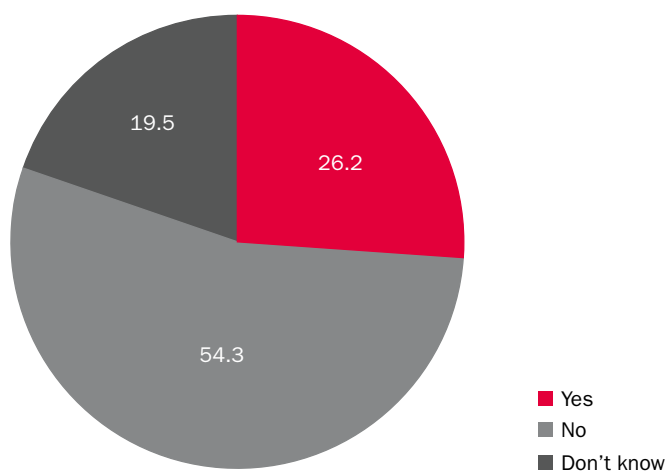


Figure 13: Documentation of experience with free trade agreements

## ■ Part III: Transatlantic Trade and Investment Partnership (TTIP)

One free trade agreement currently stirring up a lot of public debate is the planned Transatlantic Trade and Investment Partnership (TTIP). TTIP is a free trade and investor protection agreement in the form of an international agreement between

the European Union, the United States, and other countries. Detailed terms of the agreement have been the subject of negotiations between representatives of the European Commission and the US government since July 2013.

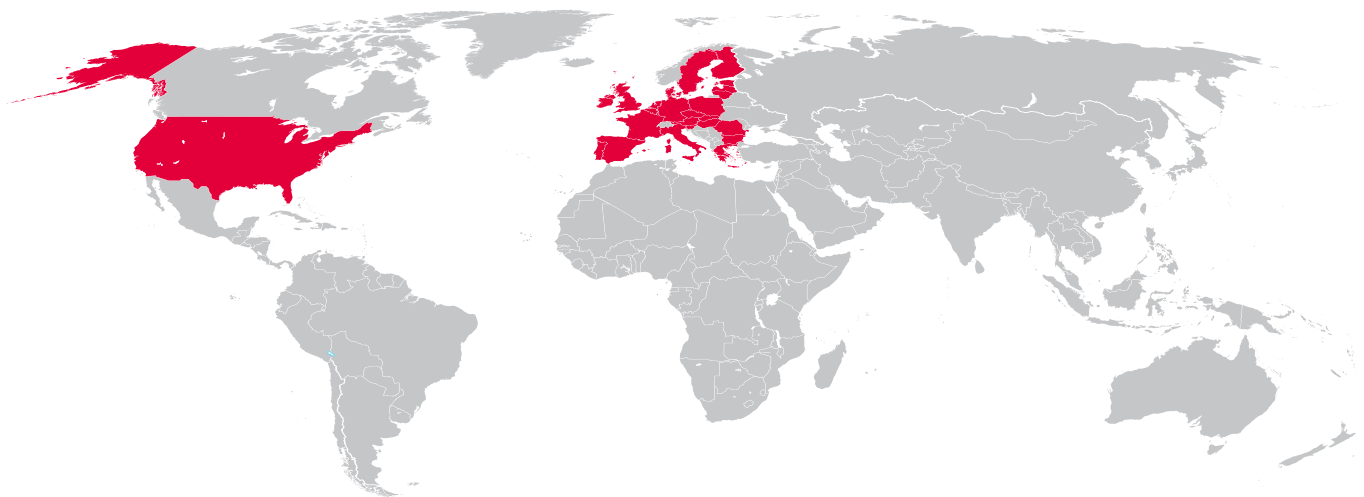


Figure 14: Map showing the countries directly covered by TTIP (shaded red)

### 1. Basic assessments of TTIP

#### 1.1 Spontaneous associations with TTIP

On the questionnaire, participants were first asked to spontaneously write down three words that they associated with the subject of TTIP. The total of 335 keywords can be roughly divided into three categories: Some 35% relate to the agreement itself and the negotiation process, 33% criticize the content or consequences of the planned free trade agreement (see Figure 15), while about 24% can be called positive (see Figure 16). Another 8% are remarks that cannot be definitively assigned to one of these three categories.

The keywords about the agreement are largely neutral definitions or name one of the participating countries. The inclusion of Canada is interesting, since the Comprehensive Economic and Trade Agreement (CETA) between Europe and Canada announced in September 2014 is indeed considered a blueprint for the free trade agreement with the US.

“Superfluous” and “dubious” – two examples used by obvious critics among the respondents to describe the planned agreement. Most

negative remarks, however, relate very specifically to the threat that the agreement could “reduce,” “subvert,” or even “weaken” EU quality standards, consumer protection, limitations on genetic engineering, food

standards, the environment, and health & safety regulations. Another key issue is the critically debated protections for investors as a threat to democracy and legal autonomy in the nations of Europe.

**Spontaneous sentiment about TTIP (negative)**



Figure 15: Spontaneous sentiment about TTIP (negative)

“Necessary,” “important,” or “urgently needed” – advocates of TTIP are also very clear in the words they choose. The main benefits they invoke are the removal of trade barriers, new market opportunities, and positive

effects on economic development. They also specifically mention various simplified global trade procedures and obvious customs savings.

**Spontaneous sentiment about TTIP (positive)**

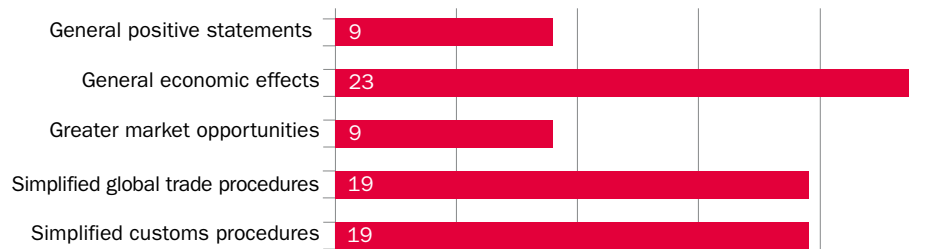


Figure 16: Spontaneous sentiment about TTIP (positive)

## 1.2 Personal opinions of respondents about TTIP

The responses described under section 1.1 are similar for the following question: “What is your general impression of TTIP? We are interested in your own personal opinion as a citizen.”

This was intentionally asked as an open question to capture the mood among the global trade experts who were surveyed. A great number of participants took the opportunity to express their own personal opinion, many in a very thorough and impassioned manner.

The critics are especially blunt in their choice of words: “Great threat,” “a huge catastrophe for the EU,” “I view it with great skepticism,” or “grave threat to our environment and health.” The content of the

criticisms match those already outlined in the spontaneous associations in section 1.1. There is explicit criticism of unilateral advantages, secretiveness, and the threat to European standards and thus to consumer protection, environmental protection, health, democracy, and law.

The advocates are not so direct or emotional in their language. They describe TTIP as “politically overdue,” “a flagship project,” “positive,” and “offering key benefits in bilateral trade.”

In most cases, these participants weigh the opportunities against the risks and emphasize above all the potential of such an agreement – if implemented successfully. But the open question is used much more often by the critics to passionately share all kinds of reservations.

## 2. TTIP: negotiating process

### 2.1 Transparency and influence in the negotiating process

One point that is criticized over and over again is the lack of transparency in the process of negotiating the agreement. This has also been the subject of very critical debate in the media and among policymakers all year long. So it is not surprising that 79% of respondents also feel poorly informed (see Figure 17). Statements by the participants confirm this (see right margin).

Only one-fifth finds that key information about TTIP is somewhat transparent and accessible. Most participants also feel that business interests are given too little considerations in the negotiations.

“All of us will be affected, but no one is supposed to know what’s coming,” concludes a report by the German television channel ARD written by journalists Stephan Stuchlik and Kim Otto. The two attempted – in vain – to learn more about the TTIP negotiations for their report entitled “The Big Deal.” What they found instead was vague indications and denials.

*Participants in their own words*

*“Negotiations are taking place behind closed doors.”*

*“It’s unclear what exactly is being negotiated.”*

### TTIP: The negotiating process

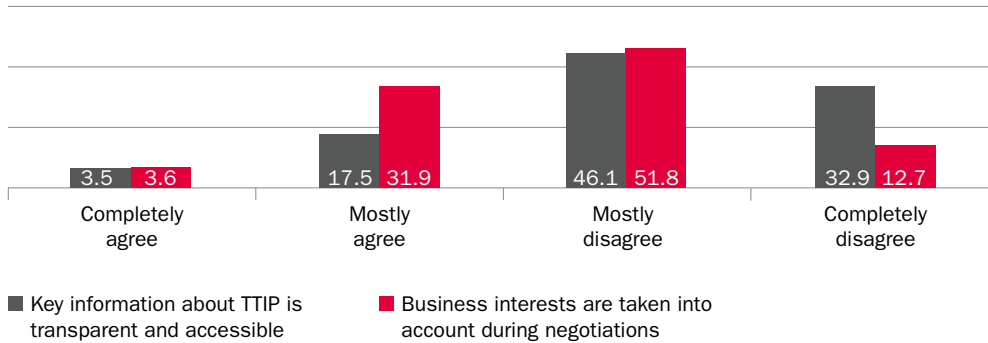


Figure 17: Transparency in the negotiating process and consideration of business interests (in percent)

### 2.2 Implementation date of TTIP

The participants in the study feel confident that it is not a question of whether TTIP is coming but when. Only 14% do not expect the agreement to be implemented. It won't likely take effect within the next two years, however, says a majority of participants. Some 43% predict it will be implemented only after 2017 (see Figure 18).

This shows that respondents have entirely realistic expectations – likely influenced by

the experience of the CETA negotiations, the final phase of which was in full swing when the survey was being conducted. The agreement with Canada is considered a blueprint for TTIP and has been in negotiations for about five years. It is not expected to take effect until 2016, however. The TTIP negotiations have also been difficult, accompanied in equal measure by both political will and massive criticisms from many sides.

### When do you expect the implementation of TTIP?

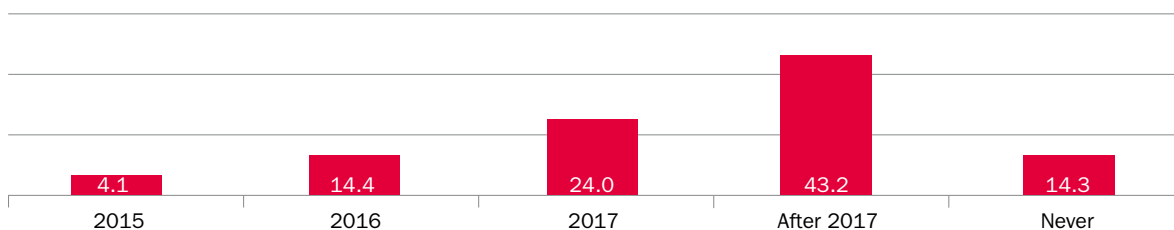


Figure 18: Expected implementation of TTIP (in percent)

### 3. Opportunities, risks, and effects of TTIP

Regardless of how the respondents feel about TTIP – 54% of all the experts believe that the agreement will be “very relevant” for their companies, while only 10% feel that the topic does not concern them (see Figure 19). This underscores how TTIP will have a major impact on the competitiveness of companies. And although many businesses are already

benefiting from the potential of preferences – in commerce with Switzerland, for example – some 39% of respondents still believe that TTIP will further change the use of preferences. So it can be assumed that even established processes relating to preferences in the broader sense will have to be reviewed and adapted.

TTIP: Expected consequences for own company

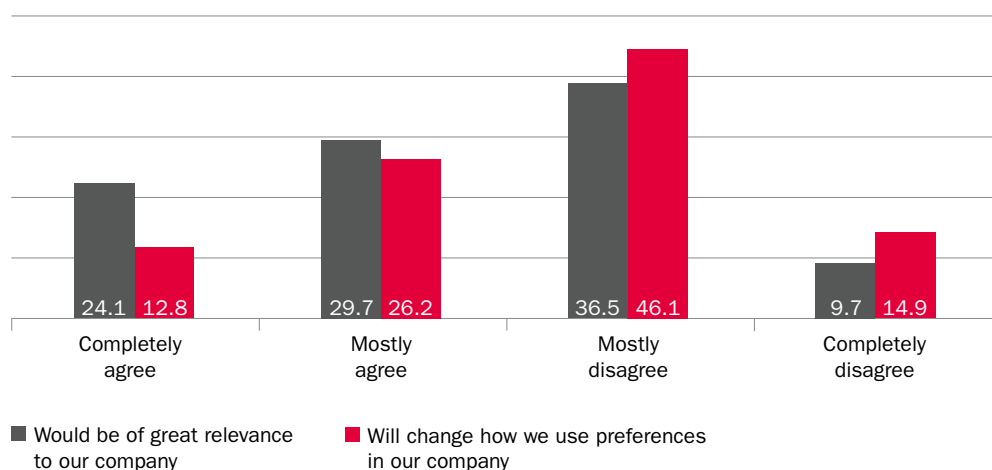


Figure 19: Expected consequences for own company (in percent)

#### 3.1 Effects on the employment and financial situation of businesses

If you look more closely at the impact of the free trade agreement on businesses, most of the global trade experts who were surveyed (61%) do not expect that TTIP will have positive effects on the financial development (see Figure 20). And only one in ten is clearly convinced that his or her company will benefit economically from the free trade agreement.

Expectations are much more cautious when it comes to the effects on employment, with

82% of participants in the study expressing doubt that TTIP will lead to positive developments here.

Overall, respondents from the UK expect much more positive effects on the economic development of their companies. Some 80% of UK experts expect a boost to their financial performance and job creation (Germany: 33% for financial performance, 15% for job creation).

**TTIP: Expected effects on own company**

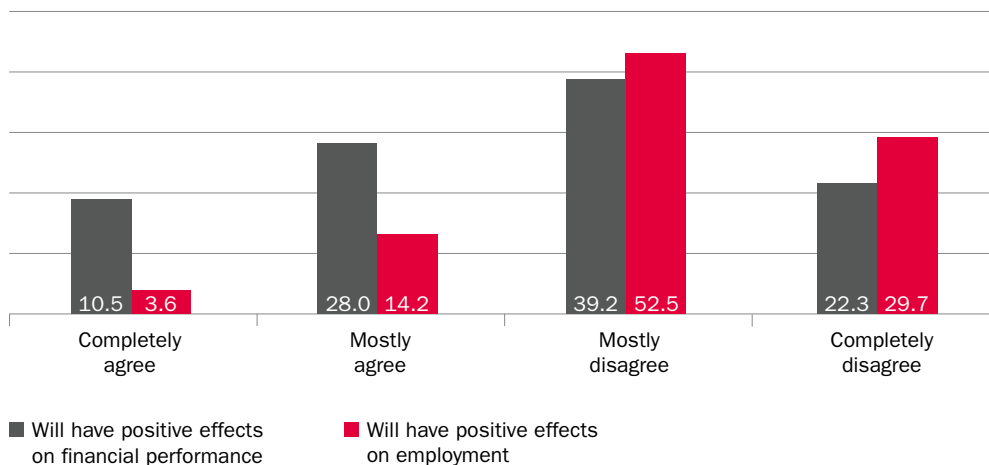


Figure 20: Expected effects on own company (in percent)

The effects in these two areas also depend on whether the businesses have only limited activity in the US market (up to 20% of revenues) or derive an important share of

revenue from the US. The latter expect much more positive economic effects for their companies, as Figure 21 shows.

**TTIP: Positive effects on financial performance – by share of revenue from the US –**

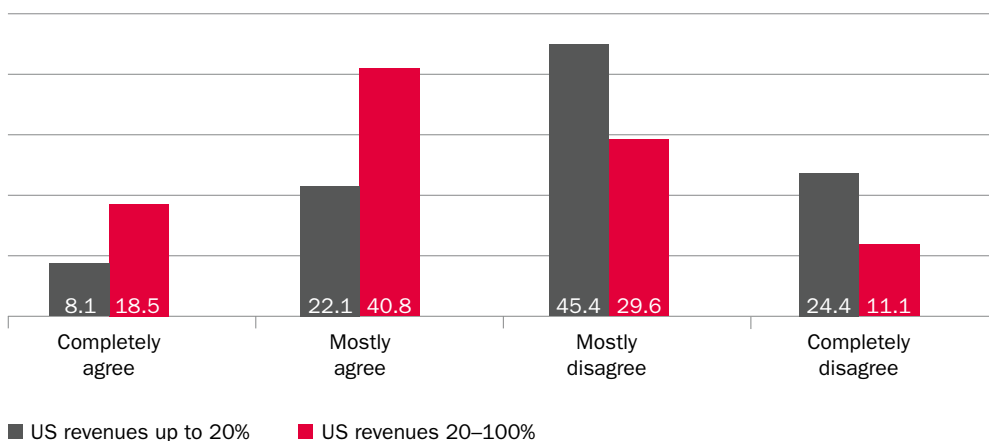


Figure 21: Assessment of positive effects on financial performance (in percent)



### 3.2 Opportunities that TTIP offers businesses

In addition to financial considerations, the reduction of non-tariff barriers to trade also plays a major role in free trade agreements. TTIP is no exception – it is actually a very good illustration of this. Most participants in the study see the transatlantic agreements as an opportunity to eliminate trade barriers and make markets more accessible (see Figure 22). One possible reason is that newer agreements such as TTIP (or CETA)

affect highly developed markets with high industry standards, making it possible to achieve real simplifications by agreeing to align processes. The more differentiated and developed markets are, the greater the benefit from standardization or harmonization.

Experts are more cautious when it comes to cost reductions and cheaper prices in the target market. Fewer than half of respondents see opportunities for their own companies here.

*Participants in their own words*

*“The elimination of tariff and non-tariff barriers to trade is definitely a win-win situation ...”*

#### TTIP: Opportunities for own company

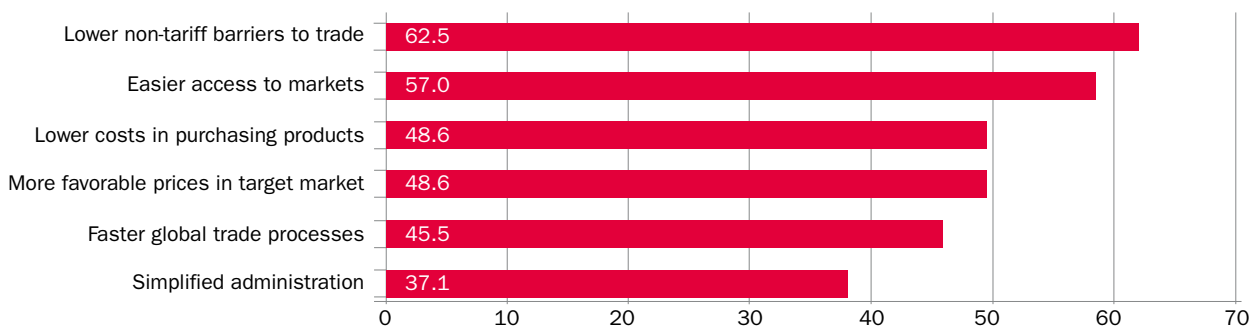


Figure 22: Opportunities for own company (in percent)

Interestingly, UK companies are more optimistic when it comes to the opportunities offered by the new agreement with the US. The difference is especially pronounced when

it comes to faster global trade processes, where many more UK experts are counting on TTIP to bring simplifications (see Figure 23).

**TTIP: Opportunities for own company – comparison Germany/UK –**

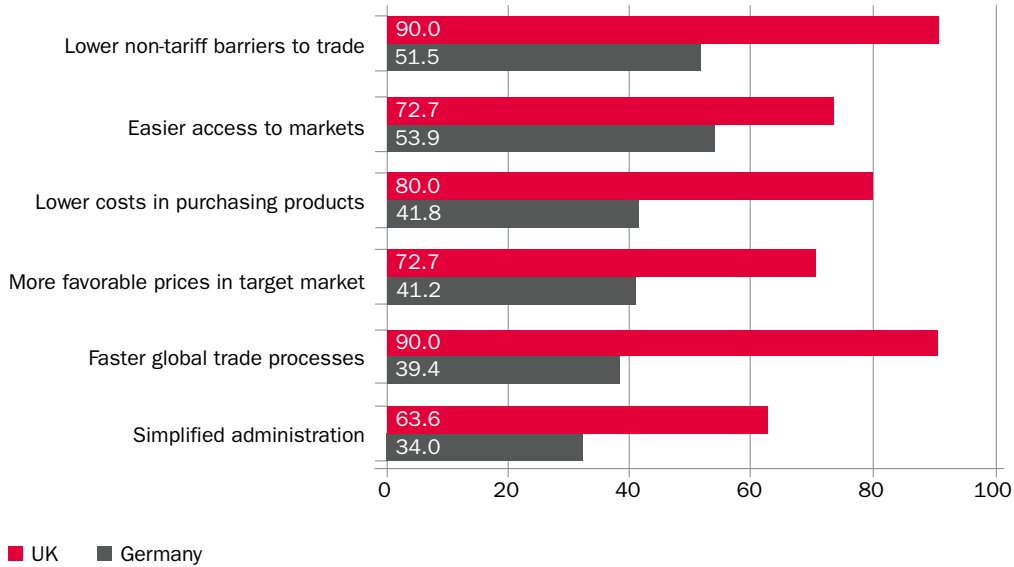


Figure 23: Opportunities for own company by country (in percent)

**3.3 Risks that TTIP poses to businesses**

Easier access to markets affect all markets in the EU. That's why more than half the companies see a potential that their own competitive position will shift as new players stream into the market. Some 40% of respondents do not expect new competitors when the transatlantic pact takes effect, however. A good two-thirds of the experts are preparing for greater price pressures (see Figure 24). Some see other risks as well, as one participant expresses (see right margin).

In general, it's important to bear in mind with this question that several more years are likely to pass before TTIP takes effect, and even the companies don't expect the agreement to come anytime soon. That's why it will be interesting to observe whether the expectations of risks and opportunities shift and further differentiate as implementation approaches or more detailed information emerges.

*Participants in their own words*

*"The excessive administrative costs create an extremely strong competitive disadvantage for small and medium-sized enterprises."*

### TTIP: Risks to own company

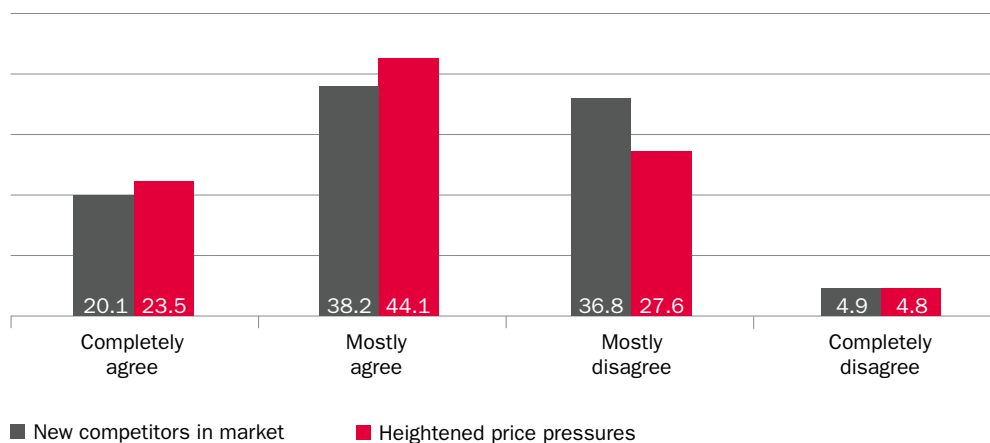


Figure 24: Risks to own company (in percent)

### 3.4 Effects on activities in US market

One possible effect of TTIP could be a change in how businesses conduct their procurement, but the study does not confirm this suspicion. A mere one in four respondents believes that TTIP will provide new incentives for their own procurement activities in the US. This is contrasted by the nearly 74% who predict no changes in the procurement market.

This finding is noteworthy, not least because industry groups – particularly the small and medium-sized enterprises (SME) strongly represented among the survey participants – are hoping for incentives in European-American trade. The German Chambers of Industry and Commerce (DIHK), for example, cite “increased attractiveness of investments” as one of ten reasons in favor of TTIP. Evidently, respondents do not even expect the elimination of tariff and non-tariff barriers to trade to incentivize increased

direct procurement in the US. There are two possible explanations for these rather sober assessments: Either the respondents anticipate a realignment of the procurement market only in the medium term, or they do not yet see the tangible benefit of TTIP. Taking into consideration that many respondents do not expect implementation until after 2017, both interpretations are possible and conceivable.

## 4. TTIP in day-to-day business

### 4.1 Reactions to TTIP

How will your company prepare in response to TTIP?  
– No special activities planned –

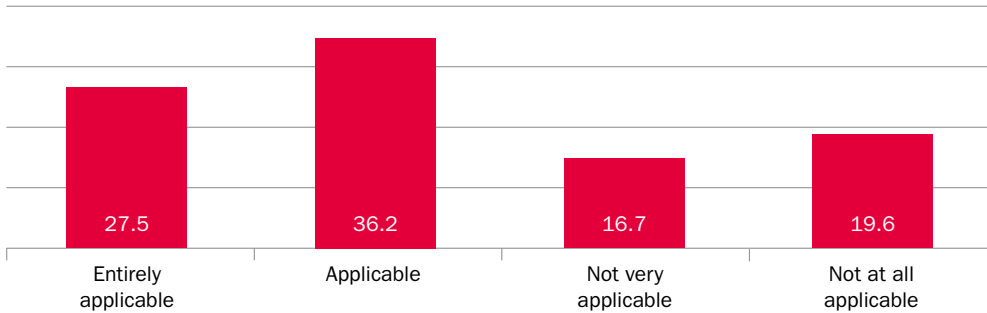


Figure 25: No special activities planned in response to TTIP (in percent)

Given that many of the experts surveyed do not expect TTIP to be implemented before 2017 or even at all, it is understandable that

nearly 64% are not planning any specific actions. Only about 20% are planning specific (re)actions (see Figure 25).

How will your company prepare in response to TTIP?

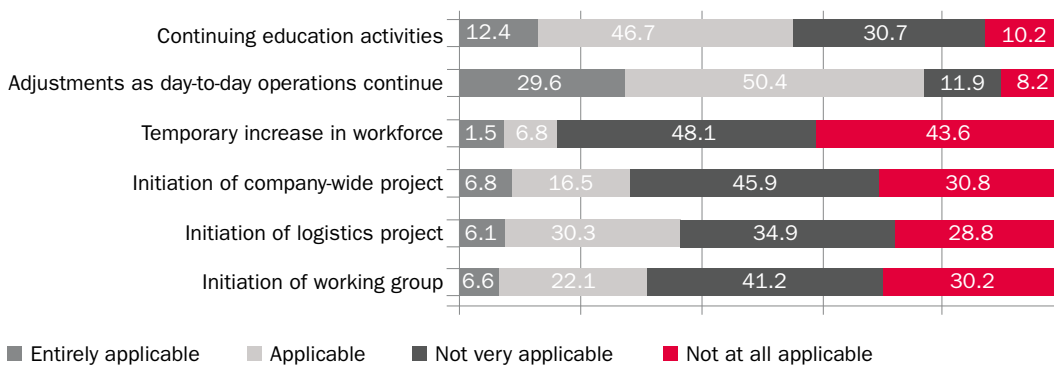


Figure 26: Activities planned in response to TTIP (in percent)

On average, participants are rather reserved on the question of “how” to respond to TTIP (see Figure 26). About 71%, for example, do not feel that forming an internal working group is a very effective means of adapting to TTIP. Nor are the alternatives of “initiating a project within logistics” (63.7%) or “initiating

a company-wide project” (76.7%) seen by most as an active response to the changes from TTIP. While only about 16% of small businesses plan on initiating a project within logistics, well over half (52.7%) of large enterprises see this as an appropriate tool. Only a small group of just over 8% see the

temporary increase in employee capacities in logistics as adequate for dealing with the changes.

Among the planned responses, two general approaches stand out: On the one hand, the experts assume that adjustments must be made as day-to-day operations continue (80%).

This seems only logical if (as mentioned in Part II) the logistics department already possesses the technical expertise. On the other hand, some 59% expect continuing

education activities to be offered within the current workforce – evidently to fill existing knowledge gaps.

How businesses plan to respond depends not only on the size of the company, however – there are also clear variances by country (see Figure 27). The experts from the UK rely more heavily on methodological and active measures, for example, than those in the German-speaking countries. In general, the UK businesses intend to implement a broader mix of different actions.

**How will your company prepare in response to TTIP?  
– comparison Germany/UK –**

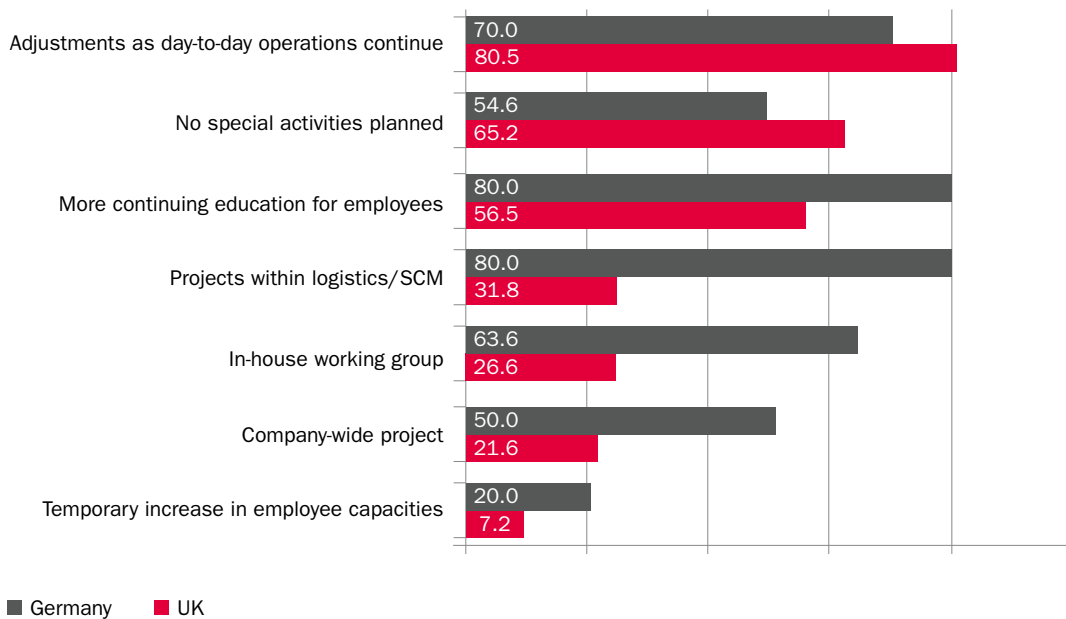


Figure 27: Activities planned in response to TTIP by country (in percent)

## 4.2 Effects on logistics

### Consequences of TTIP in operations

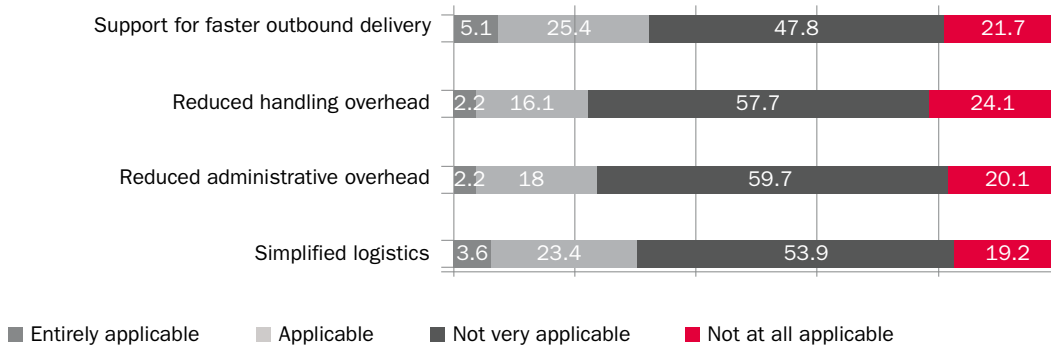


Figure 28: Consequences of TTIP in operations (in percent)

Very few respondents seem convinced that TTIP will have a positive effect on their day-to-day business. About 19% do not expect the agreement to simplify their logistics at all, and more than 50% at least have doubts. A large majority of about 80% also does not expect a reduction in administrative expenses. The same applies to operational handling expenses: Only about 18% expect an improvement here. The most likely expectation is for an acceleration of outbound deliveries – but at 30%, not even one in three holds out that hope. So overall, the expectation is for no or only slight positive effects, at least in day-to-day operations.

The expectations on the latter point are much less pessimistic when comparing the views of experts from German-speaking countries to those of other countries. Respondents from the English-speaking world consistently see greater potential – specifically in the areas of simplified logistics and faster outbound delivery – than their counterparts from the German-speaking countries (see Figure 29). This may be a reflection of the critical stance of the media that was mentioned in Part II.

### Anticipated consequences of TTIP – comparison Germany/UK –

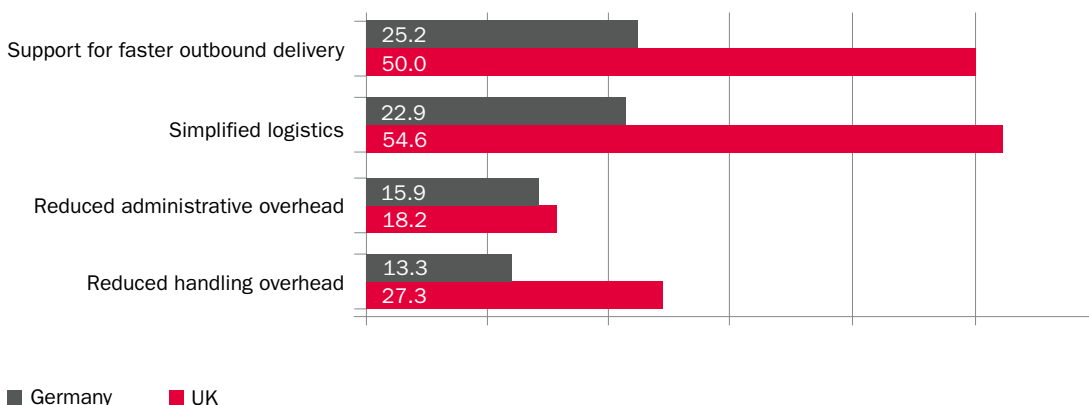


Figure 29: Anticipated consequences of TTIP by country (in percent)

### 4.3 Need for action in logistics IT

#### Expected need for action in logistics IT

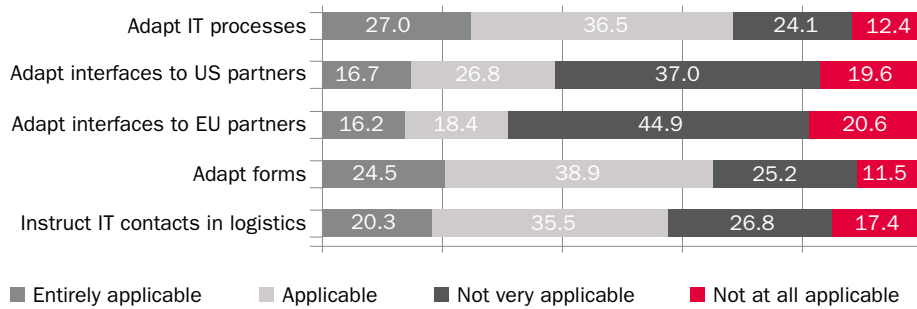


Figure 30: Expected need for action in logistics IT (in percent)

The participants in the study are not only skeptical of anticipated simplifications. Some actually expect higher overhead as a result of TTIP – for logistics information technology, for example. More than 64% believe that TTIP will lead to expenses for

adapting IT processes. It will also be necessary to adapt forms, as some 63% of respondents predict. Only a limited number of respondents expects TTIP to have an effect on interfaces to partners in the US (43.5%) and EU (34.6%).



The picture changes when the responses are differentiated by size of company, however. As already emphasized elsewhere, larger enterprises evidently anticipate a greater need for adaptations than smaller businesses. The difference is especially pronounced between businesses with fewer than 200 employees and businesses in the two other

size categories of 201–500 and over 500 employees (see Figure 31). One possible explanation for this discrepancy is that larger enterprises are more highly automated and rely on much more IT support for their processes, so the anticipated need for adaptations and action is also higher.

**Expected need for action from TTIP by size of company**

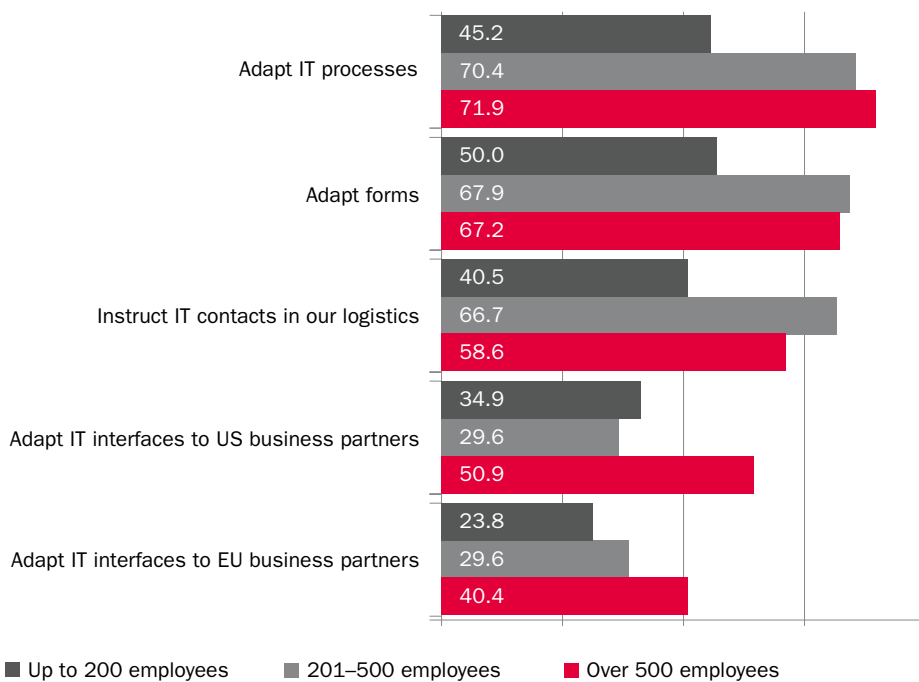


Figure 31: Expected need for action from TTIP by size of company (in percent)

## — Participants: global trade and logistics experts

Most of the 177 businesses that participated in the study are active internationally in their day-to-day operations. Some 80% of those surveyed are active in the fields of global trade, exports, imports, or logistics –

typically in a leadership position in a department or relevant division (see Figure 32). About 6% of respondents are members of the upper management or executive board of their companies.

### Position in company

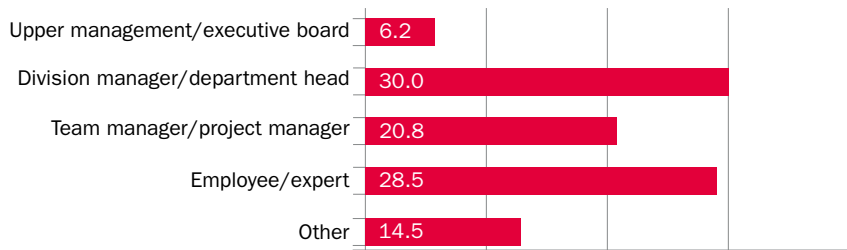


Figure 32: Participants – position in company (in percent)

This year, for the first time, the questionnaire was available in English, so about 16% of responses came from outside the German-speaking world. A wide majority of 80% of the companies are based in Germany, while about 9% are based in the UK (see Figure 33).

### Company headquarters

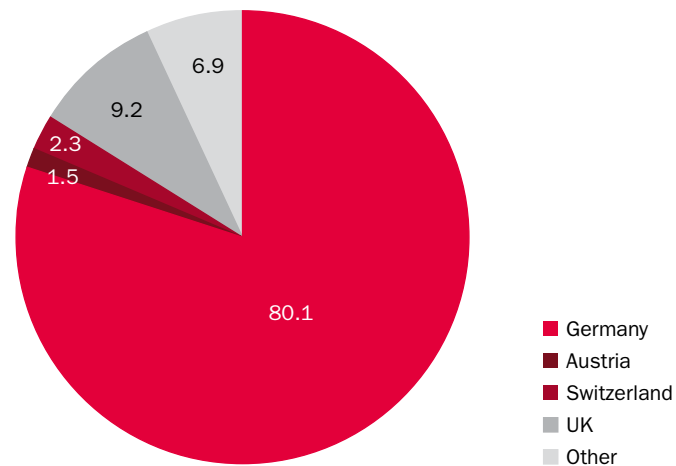


Figure 33: Company headquarters (in percent)

Overall, the results of the study reflect a broad spectrum of motivations, objectives, and conditions among the participating companies.

Companies of very different size are represented in good number, with one-third having under 200 employees and a full one-fourth with over 2,000 employees (see Figure 34).

### Company size – Number of employees

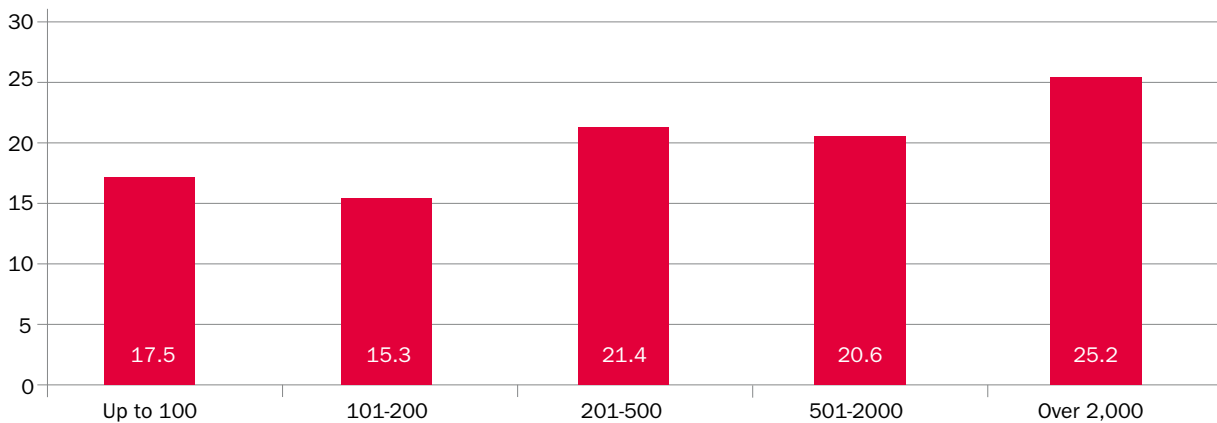


Figure 34: Number of employees (in percent)

A relatively broad spectrum of industries are also represented. The mechanical engineering industry represents the biggest

share with some 21%. The other participating businesses are distributed across a wide diversity of industries (see Figure 35).

### Industries

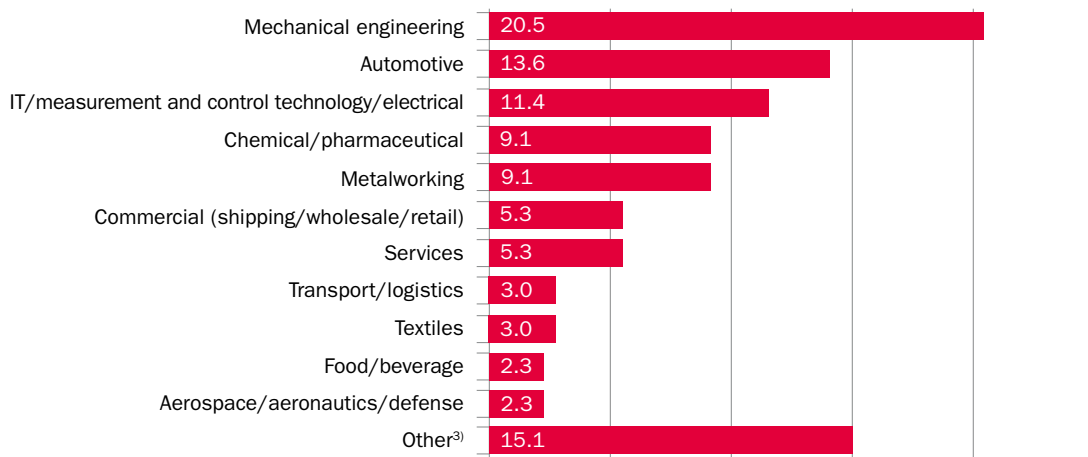


Figure 35: Industry of company (in percent)

<sup>3)</sup> Other industries: medical technology, paper and plastics processing, furniture, cosmetics, security, construction, forestry, and manufacturing.

The participating companies also vary widely in the volume of global trade (see Figure 36), as might be expected given the diversity of size and industry. Most of the companies

generate less than 20% of their revenues in the US market, with only one-fourth above this mark.

#### Foreign revenues of company in 2013 (in percent)

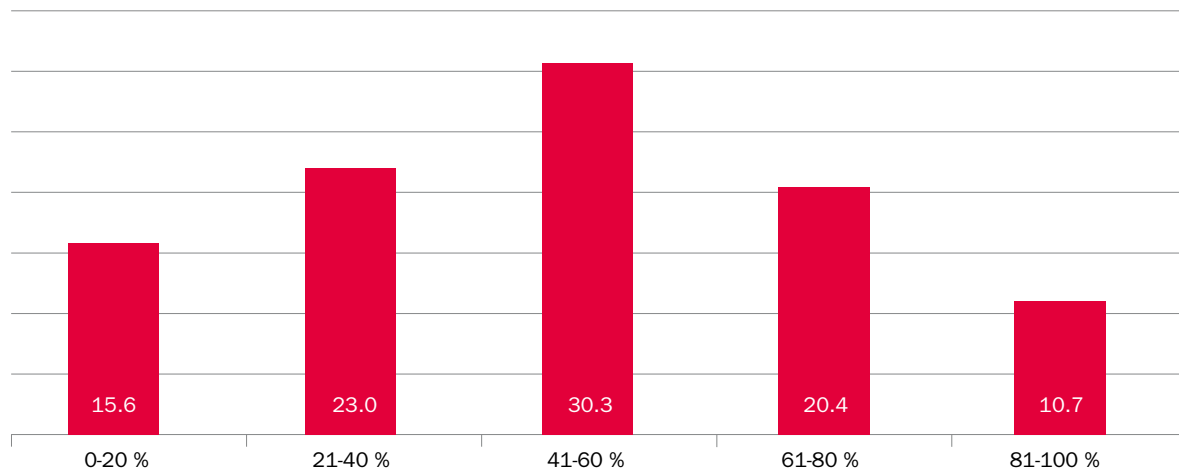


Figure 36: Foreign revenues of company in 2013 (in percent)

## — Document credits



AEB Gesellschaft zur Entwicklung von  
Branchen-Software mbH  
Julius-Hölder-Str. 39 | 70597 Stuttgart



Duale Hochschule  
Baden-Württemberg Stuttgart  
Paulinenstr. 50 | 70178 Stuttgart

### Authors

#### Dr. Ulrich Lison



Dr. Ulrich Lison is Portfolio Manager and a member of the Executive Board of AEB GmbH, where his responsibilities extend to global trade, risk management, ATLAS, EMCS, international customs processes, and AEO. He has been a shareholder and authorized representative of the Stuttgart-based software company since 2007. Dr. Lison also serves as the IT Coordinator for Außenwirtschaftsrunde e.V., a forum for global trade experts, and as an advisor and consultant on various committees. He has written numerous articles for business and industry journals and is a regular speaker on topics relating to supply chain management and global trade.

#### Study conducted and evaluated by:

Dr. Ulrich Lison, Prof. Dr. Dirk H. Hartel,  
Nina Rehschuh, Tanja Finke-Schürmann,  
Jens Verstaen

#### Editorial support:

Tanja Finke-Schürmann, Jens Verstaen

#### Prof. Dr. Dirk H. Hartel



Prof. Dr. Dirk H. Hartel has served as Professor for Logistics and Supply Chain Management at Baden-Württemberg Cooperative State University in Stuttgart since 2007. Since 2009, he has headed the Department of Business Administration Service Management/Logistics Management and is also active as an independent management consultant, speaker, and coach. His consulting, teaching, and research focuses on the fields of logistics outsourcing, process optimization in SCM, and supply chain risk management.

#### Layout:

iXmedia GmbH Werbeagentur

#### Translation:

AEB GmbH