



# The EU-Singapore Free Trade Agreement: Facilitating Bilateral Trade Between Germany and Singapore

 PartnerForTrade



Singaporean-German Chamber  
of Industry and Commerce  
Deutsch-Singapurische  
Industrie- und Handelskammer



**On the Cover**

November 2019 saw the entry into force of the EU-Singapore Free Trade Agreement (EUSFTA). It is the first free trade agreement between the EU and a member of the Association of Southeast Asian Nation (ASEAN). It will strengthen trade between its partners and create many new business opportunities. Beyond that, the entry into force sends an important message to the rest of the world: In times of rising global protectionism, Germany, the EU and Singapore firmly stay committed to multilateralism as well as free and open trade. It is under this premise that this publication showcases how the EUSFTA facilitates cross-border trade and what German and Singaporean companies need to know in order to successfully leverage on this Agreement.

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# Greetings and Introduction

21 November 2019 marked an important milestone in German-Singaporean relations with the EU-Singapore Free Trade Agreement (EUSFTA) entering into force. The agreement is a modern and comprehensive Free Trade Agreement and will grant new opportunities to Singaporean and German exporters alike.

As a bilateral business and trade association, the Singaporean-German Chamber of Industry and Commerce (SGC) has been in support of this Free Trade Agreement since the start of its negotiation in 2009. The SGC has therefore provided input during public consultations, fostered constructive dialogues on the topic and advocated for a swift ratification and entry into force.

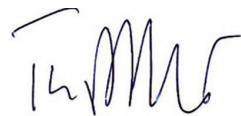
This publication seeks to showcase the impact of the EUSFTA on German and Singaporean businesses and how this modern and comprehensive trade agreement can strengthen bilateral ties. To do so, the SGC has conducted the 2019 Trade and EUSFTA survey<sup>1</sup> to obtain feedback from the German and Singaporean business community as well as conducted interviews with five companies. Key takeaways of the publication are:

- ▶ A majority of German and Singaporean companies are negatively impacted by global trade uncertainties.
- ▶ Key barriers to trade between Germany/the EU and Singapore are divergence of (i) standards and regulations (31%), (ii) marking, labeling and packaging requirements (27%) as well as (iii) tariffs (26%).
- ▶ 46% of respondents indicated that the EUSFTA will help significantly to overcome current barriers to trade, while 59% stated it would improve their export performance.
- ▶ While the EUSFTA eliminates tariffs and non-tariff barriers, liberalises service sectors and creates new procurement opportunities, companies must manage their expectation since some commitments will only phase-in after some years and/or can be conditionalised. For the latter, companies must meet the terms and conditions prior to being able to leverage on the agreement.
- ▶ Companies should spend some time to study the Agreement and, if necessary, develop an internal EUSFTA strategy.

We trust that you will find the following pages relevant and valuable for your business needs, and we would like to thank Mr. Robin Hoenig for preparing this report.



**Dr Claus Trenner**  
President, SGC



**Dr Tim Philippi**  
Executive Director, SGC

<sup>1</sup> 92 companies participated in the Trade and EUSFTA survey (47 German companies and 45 Singaporean companies)

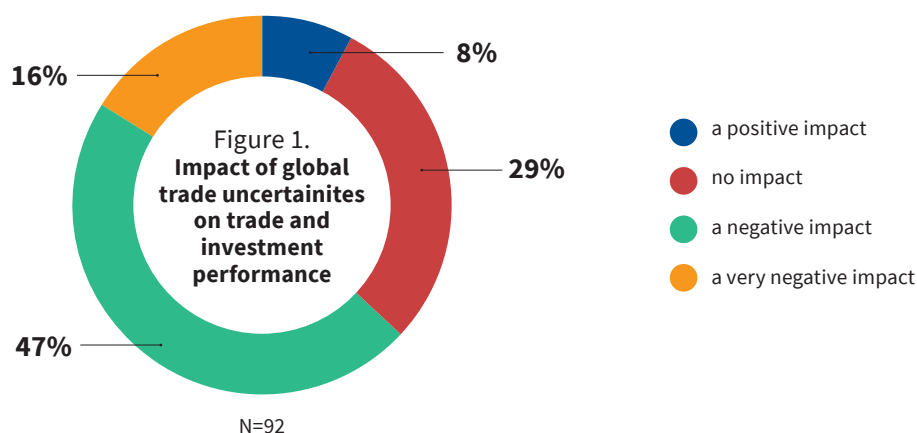
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## **Protectionism on the Rise – Germany and Singapore Must Act as Like-Minded Partners**

Over the last few years, the narrative of the global trading system has drastically changed from multilateralism, free trade and open markets to rising protectionism and economic fragmentation. Key milestones of the global trading system, such as China's accession to the World Trade Organization (WTO) in 2001 or the creation of the ASEAN Economic Community (AEC) in 2015 now fade in the shadows of:

- ▶ The shutdown of the Appellate Body of the WTO as of 10th December 2019
- ▶ Brexit, Great Britain's decision to leave the European Union, and uncertainties surrounding its future trading relationship with mainland Europe
- ▶ The ongoing tit-for-tat tariff hikes between the US and China
- ▶ The growing trade tensions between Japan and South Korea



The list goes on. This is certainly not good news as trade volatility and protectionist policies have adverse effects on economic growth, cross-border trade and investments. In particular, countries like Singapore and Germany that are export-oriented and whose industries firmly integrated or are linked to international and regional value chains are affected by global trade fragmentation.

The numbers speak for themselves. Both countries experienced low economic growth in 2019, barely managing to avoid technical recessions.

The SGC's trade and EUSFTA survey consolidates this. **Almost two-thirds of German and Singaporean companies expressed that global trade uncertainties have had a negative impact on their cross-border trade and investments.** These findings are almost identical with those of the 2018/2019 business sentiment survey, conducted by the Singapore Business Federation (SBF). In the survey, 61% of Singapore-based respondents have indicated that the US-China Trade War may have a negative impact on their business.<sup>2</sup> Hence, both Germany and Singapore stand to lose in times of turbulent trade.

This is why it is more crucial than ever for like-minded partners, like Singapore and Germany, to uphold the core values of free and open trade as well as to counteract protectionism. In this regard, the entry into force of the EUSFTA was an important step and signaled to the world that global economic and trade co-operation is still progressing in some parts of the world.

<sup>2</sup> <https://www.sbf.org.sg/images/2019/SBF-2018-2019-Infographics-Final.pdf>

## Case Studies on the Impact of the US-China Trade War on Singaporean and German Companies

While the data in the previous section illustrated that trade uncertainty and rising protectionism has affected business, we would like to provide two examples of the implications of the US-China Trade War on companies that operate in Asia-Pacific. Accordingly, we interviewed a Singaporean company and a German company. The former is a dynamic Singaporean SME that is currently planning to shift some manufacturing from China to Singapore as result of being subjected to a 15% tariff, while the latter is an innovative German MNC that is not affected by the US-China tariff escalation.

The following two editorials are based on interviews with:

- ▶ Ms Joyce Seow, Group Executive Director of Watson EP Industries Pte Ltd
- ▶ Mr Ernst Coppens, Managing Director and Chief Financial Officer of Bayer South East Asia Pte Ltd

# Navigating through global trade uncertainties



## Watson EP Industries' response to the US-China Trade War

Watson E.P. Industries Pte. Ltd is an expert for one-step design and manufacturing solutions. With manufacturing plants in Singapore and China, Watson's key competencies include product design and development, 3D printing, tool design and fabrication, injection moulding, electroplating, PCBA, spray painting, printing and full products assembly. Watson is an established leader in EMI shield coating and electroplating on plastic components.

Over the last 35 years, Watson has successfully integrated itself into global supply chains and has taken advantage of free and open markets. As such, the company has been able to build long-lasting relationships with clients in the United States, Australia and Europe (mostly Germany, Switzerland and the United Kingdom) and has become a trusted supplier for customers in electronics (industrial and consumer), hygiene and sanitisation, telecommunications and aerospace industries.

As most of Watson's manufacturing takes place in Dongguan, China, at its 250,000 square feet manufacturing plant, the company has been one of many that stand affected by the tariff hikes administered by the US Administration against China. While being fortunate enough not to have been subjected to the early rounds of tariffs, Watson quickly found itself compromised by the escalating trade tensions, when President Trump announced the increase in tariffs on \$200 billion of imports from China. Products, parts and components that initially entered into the US-market at a zero tariff rate suddenly faced a customs duty of 15% duty upon arrival at US customs. While smaller tariff-hikes could have been absorbed and dealt with, a 15% increase required an immediate risk mitigation strategy.

As a dynamic and cost-effective SME, Watson quickly reacted to these developments. It engaged its US customers to come up with a viable solution that would allow the company to circumvent the 15% charge and simultaneously maintain its business relations. As a result, Watson is currently shifting some of its production capacity from China to Singapore. Doing so is certainly not an easy task and thus, Watson is deploying a two-phased strategy.

### Phase 1:

Watson already holds 40,000 square feet and a 100-staff strong manufacturing facility in Singapore. Accordingly, the company is planning to leverage upon its Singapore facilities by maximising existing overheads, i.e. employing more qualified staff. This allows Watson to increase its production capacity in Singapore. In turn, it can export products, parts and components to the US market without facing the 15% duty. Ms Seow, Group Executive Director of Watson, explained that "although the cost of production is higher in Singapore, US-based customers will ultimately pay a lower price than they would pay for the products manufactured in China. As we want to give our clients value-for-money, this decision makes a lot of sense to us". As an additional safeguard, Watson has already engaged Singapore Customs and obtained a certificate of origin to ensure that their goods are deemed as originating from Singapore and not treated as transshipment from China.

### Phase 2:

Provided that the US-China Trade War prevails, Watson is exploring the possibility of expanding its production in Singapore or elsewhere in ASEAN in the near future. Phase two is therefore a long-term contingency plan that requires a larger amount of capital and prolonged investments. Whilst Watson has not made a final decision yet, the company has already put much thought into this and scrutinised different manufacturing locations from various vantage points. One of the many aspects that are important to the company is the access to an elaborate FTA network.

Watson's response to rising protectionism is a prime example of how manufacturers can deal with trade uncertainties and demonstrates careful planning and strategic thinking at its best.





# Operating in today's global trading environment

## **Bayer South East Asia believes free and open trade is key to sustainable development**

Bayer is a life science company and a global leader in health care and nutrition. Its innovative products support efforts to overcome the major challenges presented by a growing and ageing global population. Guided by its purpose "Science for a better life", Bayer strives to prevent, alleviate and treat diseases. It is also making an important contribution to providing a reliable supply of high-quality food, feed and plant-based raw materials, while at the same time promoting the sustainable use of natural resources.

As a global enterprise with more than 150 years of history, the Bayer Group has companies in 90 countries that represent its Pharmaceuticals, Consumer Health, and its Crop Science divisions and its Animal Health business unit. In Singapore, Bayer (South East Asia) Pte Ltd hosts the Asia Pacific headquarters for Pharmaceuticals and Crop Science and the ASEAN Country Group Platform. Bayer has direct business presence in eight countries and has 20 legal entities in ASEAN and employs approximately 4,000 people.

With a strong footprint in ASEAN, one could assume that Bayer is directly affected by the international trade tensions. However, unlike companies in ASEAN that are impacted by the US-China tariff escalations by being linked to supply chains in China or the mounting competition resulting from trade diversion into ASEAN from China, Bayer currently feels little impact on its ASEAN operations.

Even for its Consumer Health division's biggest production facility in Asia Pacific situated in Cimanggis, Indonesia, supplies and operations are as per normal. As a key global production site for Consumer Health, the Cimanggis site currently exports 80% of its products to 33 countries that have the most stringent pharmaceutical regulations including China, Australia, Korea and European countries.

Moreover, Bayer SEA has not been impacted by any trade diversion that may have resulted as a response to companies shifting their exports away from the US and China markets. In fact, according to Ernst Coppens, Managing Director and Chief Financial Officer of Bayer SEA, "business is stable, our consumer health is growing beautifully, double-digits, and we really have a lot of momentum".

Bayer believes that protectionism and trade barriers are not the way forward. Countries need to work together and progressively liberalise their markets by removing trade barriers, either multilaterally through the WTO or by negotiating free trade agreements. Therefore, Bayer very much welcomes the ratification and entry into force of the EU-Singapore Free Trade Agreement. It underscores the EU's and Singapore's commitment to an open and rule-based system.

Bayer South East Asia is an excellent example to showcase that not every single company in ASEAN stands affected by the US-China trade negotiations and despite rising global trade uncertainties, is on a path of growth.

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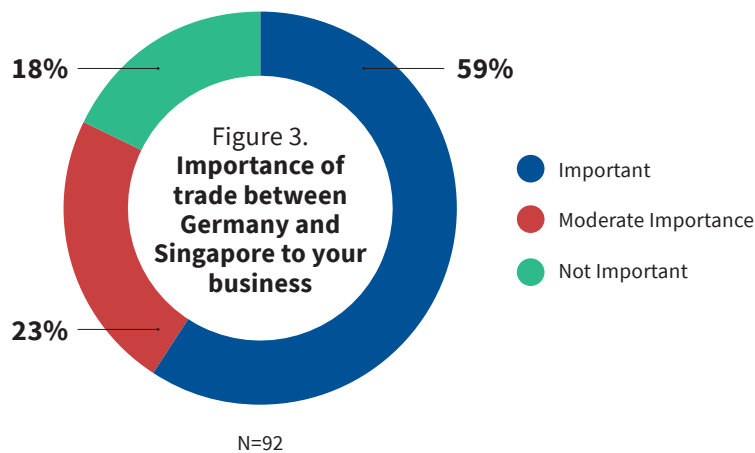
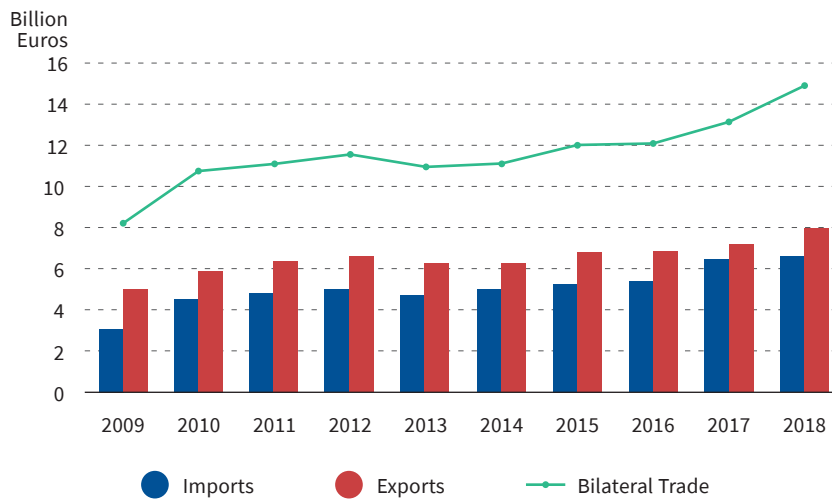
## German-Singaporean Trade Relations

## Bilateral Trade: A Decade of Growing Together

Beyond the conviction in multilateralism and open and free trade, strong economic ties also underpin Germany's and Singapore's relationship. In particular, Germany's and Singapore's trading relationship has positively evolved over the course of the last decade.

Import and Export Data from the German Federal Statistical Office show that the German-Singaporean trade volume has increased over the past few years. In 2018, the bilateral trade amounted to 14.6 billion Euros – a 31% increase compared to 5 years ago (see Figure 2). Today, this makes Germany Singapore's largest trading partner in the EU and, conversely, Singapore Germany's largest trading partner in ASEAN. Therefore, it is no surprise that **almost two-thirds of respondents (59%) indicated that trade between Germany and Singapore is important to their business.**

Figure 2. German-Singaporean bilateral trade volume (2009-2018)



## Challenges During Cross-Border Trade

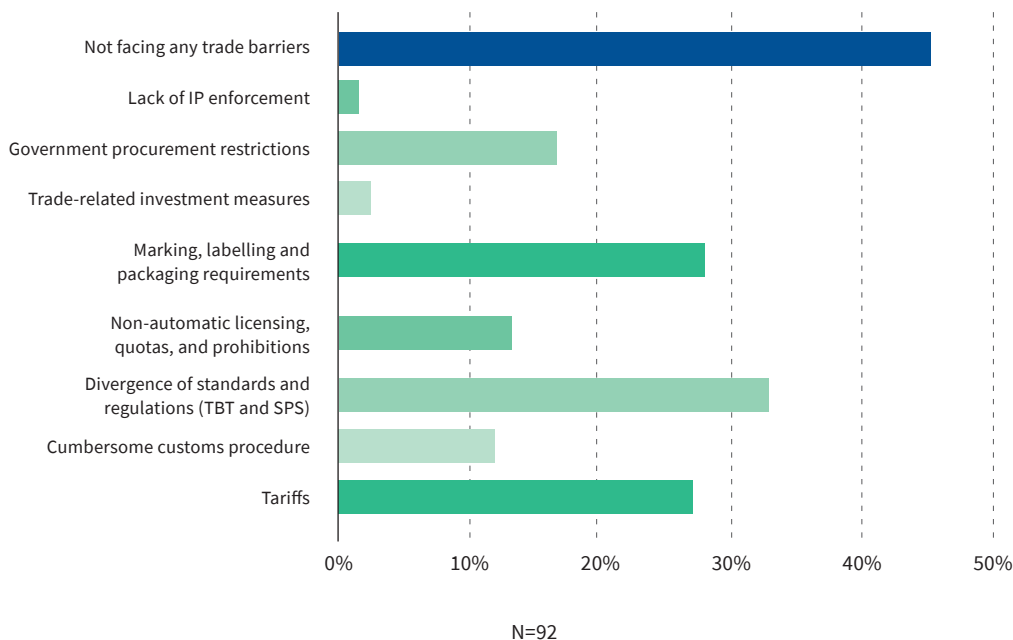
Although Germany, the EU and Singapore have advocated for multilateralism and free and open-trade, the cross-border movement of goods and services between the two parties is not always frictionless.

Frictionless trade can only occur if countries share a common market, where they set common policies on product regulation and enable the freedom of movement of factors of production. While Germany's/EU's and Singapore's trade-policy regimes are consistent with the laws and principles of the WTO, they are certainly not harmonised to the extent that they form a common market. Thus, when engaging in cross-border trade, companies may have to pay customs duties, fulfil domestic labelling requirements as well as technical specifications, undergo product testing and post-clearance audits at customs, etc.

Accordingly, we asked German and Singaporean companies which trade measures affect their cross-border trade between the two countries. Most notably, almost half of the respondents (45%) indicated that they do not face any barriers, suggesting a high degree of satisfaction with the current trade regimes in place.

Yet, challenges remain. Above all, **companies find divergences of standards and regulations (TBT and SPS) as a top challenge** when engaging in cross-border trade: Almost one third of respondents (31%) indicated that this impacts their movement of goods. Further challenges include, in particular, marking, labelling and packaging requirements (27%) as well as tariffs (26%).

Figure 4. **Barriers to Trade between Germany/EU and Singapore (multiple answers possible)**



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## **The EU-Singapore Free Trade Agreement (EUSFTA)**



## Background

The EU-Singapore Free Trade Agreement (EUSFTA) is the first Free Trade Agreement concluded between the EU and an ASEAN country. The EUSFTA negotiations were launched in 2009. The goods and services chapters of the Agreement were concluded in 2012; the Investment Protection Chapter in 2014. Eventually, the EUSFTA was signed in October 2018 and ratified on 13 February 2019. Subsequently, the FTA entered into force on 21 November 2019.

The EUSFTA consists of 16 chapters and covers the following aspects:

- ▶ Market Access for Goods
- ▶ Customs and Trade Facilitation
- ▶ Service Sector Liberalisation and Investment
- ▶ Standards and Non-Tariff Barriers
- ▶ Government Procurement
- ▶ Intellectual Property Rights Protection
- ▶ Competition Policy
- ▶ Environmental and Labour Rights

This makes the EUSFTA a modern and comprehensive free trade agreement that goes beyond commitments Germany/the EU and Singapore made at the WTO and will bring many new opportunities for German and Singaporean companies alike.

## Impact of the EU-Singapore Free Trade Agreement

Among trade economists, there is the general consensus that Free Trade Agreements boost trade flows and investments between participating parties as FTAs help companies to access overseas markets more easily so that they can grow their business. In turn, this can have a positive impact on economic growth and overall economic wellbeing. In practice, several ex post evaluations of EU's FTAs with Korea, Mexico and Chile support these assumptions.<sup>3</sup> Studies have also shown that Singapore's FTAs with key partners have resulted in trade creation.<sup>4</sup>

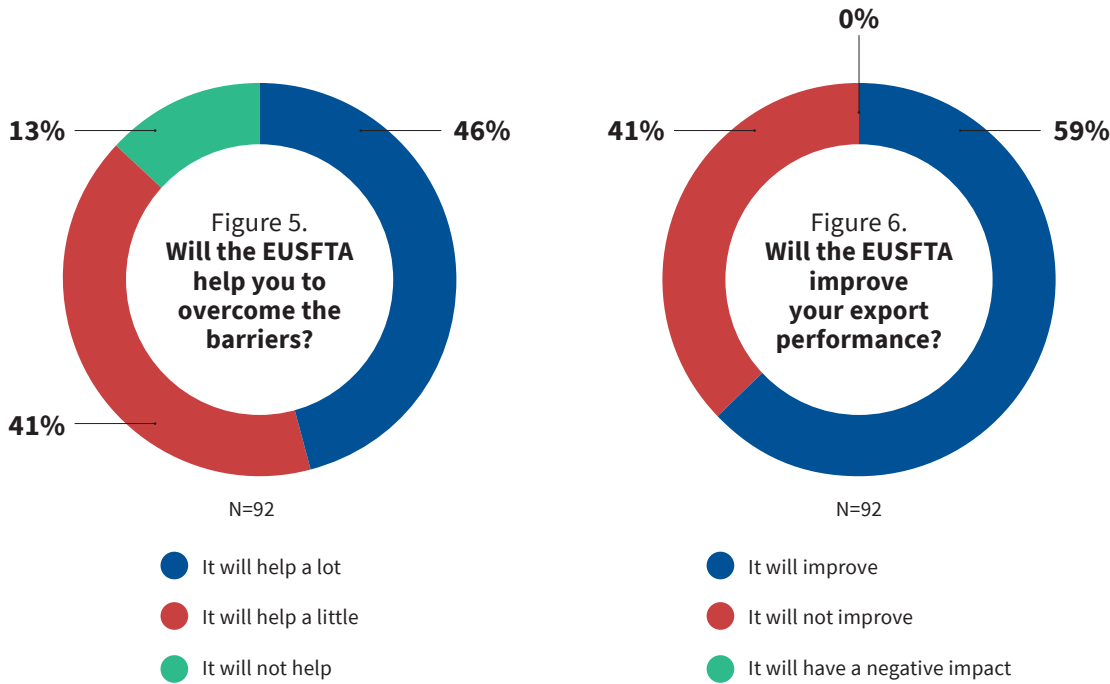
Similar results are expected from the EU-Singapore Free Trade Agreement. Indeed, several impact assessments have been conducted over the years that suggest that the EUSFTA will have a positive effect on bilateral trade between the EU and Singapore. This should not come as a surprise, as the EUSFTA is a modern and comprehensive FTA and tackles key barriers to trade.

Accordingly, we asked German and Singaporean companies the following two questions:

- ▶ Will the EUSFTA help you to overcome the barriers to trade you face when exporting between Germany and Singapore?
- ▶ Will the EUSFTA improve your export performance in the medium term?

<sup>3</sup> <https://ec.europa.eu/trade/policy/policy-making/analysis/policy-evaluation/ex-post-evaluations/>

<sup>4</sup> [https://www.mti.gov.sg/-/media/MTI/Legislation/Public-Consultations/2011/Do-Free-Trade-Agreements-Matter\\_-\\_Evaluating-the-Impact-of-FTAs-on-Singapores-Domestic-Exports-of-Goo/fa\\_2011q2.pdf](https://www.mti.gov.sg/-/media/MTI/Legislation/Public-Consultations/2011/Do-Free-Trade-Agreements-Matter_-_Evaluating-the-Impact-of-FTAs-on-Singapores-Domestic-Exports-of-Goo/fa_2011q2.pdf)



The data from the Trade and EUSFTA survey reveals that the EUSFTA will make the cross-border movement of goods and services easier for the majority of companies, with **46% of companies indicating the EUSFTA will help them a lot to overcome current trade barriers** and another 41% indicating it will help a little (see Figure 5). Merely 13% of respondents stated that the EUSFTA will not help in that regard (see Figure 5). These results go hand in hand with responses to the second question on whether the EUSFTA will improve German and Singaporean export performance: Almost two-thirds of participating companies indicated that the EUSFTA will increase their export performance in the medium-term (5-8 years), while around 41% suggested it would not (see Figure 6). Another positive aspect is that no company believes that the trade liberalisation achieved would harm their business (see Figure 6).

To unlock preferential tariff treatment, companies must comply with the Rules of Origin (see page 21)

## A. Trade in Goods and Elimination of Customs Duties

Tariffs to trade were one of the key challenges German and Singaporean companies noted as a challenge when engaging in cross-border trade. Singapore currently charges almost no tariffs on any products. The EU on the contrary currently applies a less liberal tariff policy and charges customs duties on many agricultural and industrial products. Some of these may impact Singaporean companies that export into Germany/the EU and German companies that source intermediate products from the city-state.

A key deliverable of the EU-Singapore Free Trade Agreement is to tackle tariff barriers. The EUSFTA requires each party to reduce and/or eliminate customs duties on imported goods according to specific schedules of commitment. These will specify the base rate of customs duties to which the successive reductions are applied to.

Upon entry into force, Singapore will eliminate all remaining tariffs, while the EU will do so progressively over the course of the next five years. **By 21 November 2024, the EU will have eliminated more than 99.9% of its customs duties** (a few agricultural products are carved-out of the tariff reduction in the Agreement and will thus remain, including on cucumbers, catfish, mandarins, lemons, etc).

Besides that, the EUSFTA addresses aspects that relate to the cross-border movement of goods, such as import and export restrictions, fees and formalities, licensing procedures and State Trading Enterprises.

## B. Standards and Regulations

In the survey, participants indicated that divergences in standards and regulations constitute the greatest challenges when engaging in cross-border trade between Germany/the EU and Singapore. While both parties generally tend to utilise international standards as a basis for technical and sanitary regulations, key divergences prevail. The EUSFTA has several chapters and annexes to address these challenges:

### **Technical Barriers to Trade (TBT) Chapter**

The EU and Singapore have introduced a multitude of technical regulations and requirements in order to protect consumer safety, the environment as well as animal and plant life. These technical specifications will require specific characteristics of industrial and consumer products regarding their size, shape, design, functionality and performance. An example would be the electromagnetic compatibility of household appliances. These technical specifications can differ between Singapore and the EU and result in costly and cumbersome procedures for double testing. The EUSFTA seeks to strengthen cooperation and transparency between the EU and Singapore on this matter as well as eliminate unnecessary conformity assessment procedures.

A key provision in the TBT Chapter is on marking and labelling, according to which Germany/the EU and Singapore will restrict labelling requirements to only those which are relevant for consumers/users and will not require prior approval of labels and marking as a precondition of sale of the products. Additionally, the provision will allow German, European and Singaporean companies to undertake labelling, re-labelling and corrections of labelling in an authorised premise (for example, in the customs warehouse at the point of import) in the territory of the importing Party. As more than a quarter (27%) of respondents in the SGC Trade and EUSFTA survey see that marking, labelling and packaging requirements as a barrier to trade, this provision in the EUSFTA will certainly have a trade facilitating impact on them.

As the EUSFTA is modern and comprehensive, Germany/the EU and Singapore have agreed to sector-specific disciplines in four key sectors with the aim to tackle barriers to trade.

### **Annex on Electronics**



The electronics sector, especially consumer electronics and household appliances, is frequently subjected to a complex system of testing<sup>5</sup>. Hence, trade barriers are common when products are sold abroad. Thus, the sector-specific rulebook seeks to tackle these challenges. The EUSFTA will ensure that the EU and Singapore will base their standards and technical regulations as well as conformity assessment procedures on relevant international standards and move testing regimes towards using suppliers' declaration of conformity and post-market surveillance rather than demanding third party assessment for regulated products.



### **Annex for Motor Vehicles and Car Parts**

The EU and Singapore agree to refrain from introducing new regulatory measures which differ from international standards. Additionally, since the entry into force of the EUSFTA, new motor vehicles and car parts can enter the markets without any additional testing or certification, provided they comply with UNECE type approval regulations.

<sup>5</sup> In the EU electronics have to comply with the "EU Low Voltage Directive" and the "Electromagnetic Compatibility Directive" and in Singapore the Consumer Protection Safety Scheme (CPS Scheme) applies.



### **Annex on Pharmaceuticals and Medical Devices**

The EU and Singapore agreed to use international standards, practices and guidelines for pharmaceutical products and medical devices. Additionally, the EUSFTA will ensure that criteria, rules and procedures as well as guidelines with respect to the listing, pricing and reimbursement of pharmaceuticals are objective, fair, reasonable and non-discriminatory.



### **Chapter on Renewable Energy Generation**

The EU and Singapore have agreed to foster trade and investment of green technologies by tackling barriers to trade, including mandatory local sourcing and local partnership requirements. The EUSFTA also promotes regulatory convergence and ensure that authorisation, certification and licensing procedures remain transparent, non-arbitrary and non-discriminatory.

### ***The Chapter on Sanitary and Phytosanitary Measures (SPS)***

Both the EU and Singapore employ strict sanitary and health standards in order to ensure public health and consumer protection. While upholding health and hygiene requirements, the EUSFTA seeks to facilitate the trade of agricultural and food products by keeping the frequency of import checks of products proportionate to the sanitary and phytosanitary risk associated with such imports. Additionally, both parties will evaluate each other's inspection and certification system for meat-producing/processing establishment rather than conducting individual inspections of plants. Overall, this facilitates the cross-border trade of food products.

In sum, the EUSFTA seeks to address divergences of standards and regulations (SPS and TBT), one of the key concerns reflected in the survey results. Unlike tariffs, the impact of the TBT and SPS is difficult to measure. However, companies may find that since the entry into force of the EUSFTA, some conformity assessment procedures will no longer be necessary or that tough labelling and marking requirements will now be easier to fulfil.

## **C. Services and Establishment**

As members of the WTO, both Singapore and Germany/the EU have liberalised their service sectors in accordance to international trade laws. This has enabled cross-border trade in services between Germany, the EU and Singapore. However, some key restrictions remain. The EU-Singapore Free Trade Agreement seeks to liberalise key service sectors in which restrictions prevail to date, including Banking, Postal, Environmental, Telecommunications sector, and others.



Example: Service sector liberalisation in Retail and Commercial Banking

In Singapore, some foreign banks have successfully secured the so-called Qualified Full Banking License (QFB license). Only these foreign banks can conduct the full range of banking business permitted under the Banking Act, including retail deposit-taking. Yet, some restrictions prevail that give domestic banks a decisive advantage: Foreign QFB Banks can only operate up to 25 customer service locations across the island, while local banks do not face this restriction. The EUSFTA addresses this by loosening this requirement. Under the EUSFTA, Singapore has agreed to allow any European Bank with qualifying full bank privileges to establish up to additional 25 customer service locations (of which up to 10 may be established as branches), which puts them on more equal footing with local banks.

Each procurement entity covered by the EUSFTA is listed in Annex 9-A to 9-C. Make sure to also take note of the threshold values.

## D. Government Procurement

Public procurement covers procurement of goods and services by public authorities. The EU and Singapore are both parties to the WTO Government Procurement Agreement (WTO GPA) and thus both parties enforce a modern and transparent procurement regime. However, the WTO GPA does not cover the entire procurement market. Therefore, it comes as no surprise that some companies (16%) have indicated that they see government procurement restrictions as a challenge.

The EUSFTA entails a comprehensive chapter on government procurement. This chapter builds on existing WTO GPA commitments by expanding its scope to include new procuring entities. Companies can now bid for public contracts at additional central and sub-central government entities. The EUSFTA has also lowered the participatory threshold for contracts subjected to open tendering. Some of the new procurement entities on Singapore's side include:

- ▶ National Environmental Agency
- ▶ Energy Market Authority
- ▶ Agency for Science, Technology and Research
- ▶ Competition Commission of Singapore
- ▶ Intellectual Property Office of Singapore

Hence, companies that may have found the procurement markets as initially restricted may find themselves in a better position to participate in Singapore's lucrative procurement market in the future. This is not only the case for German/European companies but also for Singaporean companies that want to participate in the German/EU procurement market.

## E. Intellectual Property Protection (IPR)

The EU and Singapore are innovation-driven economies and provide accordingly a regulatory environment in which R&D can thrive. Both parties already have modern and robust IP law systems in place and provide for adequate protection. This is also reflected in the Trade and FTA survey: Only one out of the 92 respondents expressed dissatisfaction with the current systems in place.

Although Germany/the EU and Singapore already provide for comprehensive IP laws, the EUSFTA will further enhance IP protection by:

- ▶ granting patent extensions for pharmaceuticals products (this may also cover pre-trial test phase)
- ▶ enhancing the Geographical Indicators Regime (GI)<sup>6</sup> in Singapore
- ▶ enabling border enforcement measures by which IPR holders can request customs authority to seize counterfeit trademarks and GIs, pirated copyrights and pirated designs.

<sup>6</sup> Geographical indications (GIs), a type of intellectual property right, are considered as indications which identify a good as originating in the territory of a country, or a region or locality in that territory, where a given quality, reputation or other characteristics of the good is essentially attributable to its geographical origin. Well-known examples of GIs are Parma Ham, Champagne and Feta.



## Case Studies on the Impact of the EUSFTA

In order to showcase the impact of the EUSFTA on German and Singaporean companies, the SGC has worked with German and Singaporean companies in order to identify how the trade pact will further influence their business. The three following editorials are based on interviews with:

- ▶ Ms Jocelyn Chng, Managing Director of Sin Hwa Dee Foodstuff Industries Pte Ltd
- ▶ Mr Vincent Sim, General Manager of Kärcher Singapore Pte Ltd
- ▶ Dr Siew Hwa Ong, Director and Chief Scientist of Acumen Research Laboratories Pte Ltd

# Direct tariff savings in the F&B Sector



## Sin Hwa Dee's export strategy based on the EUSFTA and other trade agreements

Sin Hwa Dee Foodstuff Industries Pte Ltd is a Singaporean company in the Food and Beverage (F&B) business. The company manufactures CHNG Kee's range of premium and premix sauces. CHNG Kee's has attained several brand awards, including the Most Distinctive Brand Award and the Superbrands Singapore Award. CHNG Kee's sauces and condiments are available in various pack sizes such as economical bulk pack, retail pack and sachets, and include:

- *Premium Sauces* – Soya Sauce, Oyster Sauce, Sesame Oil, Plum Sauce, Hoi Sin Sauce, etc.
- *Premix Sauce* – Black Pepper Sauce, Tom Yam Paste, Laksa Paste, Sambal Belacan, Hainanese Chicken Rice Mix, etc.

Over the last 40 years, the company has successfully advanced from traditional manufacturing processes to faster and more efficient means using high-tech machinery and equipment, housed in a state-of-the-art factory of 90,000 square feet. The company has achieved international production and quality standards, including FSSC22000 and Halal certifications. The company has expanded to more than 30 countries, including China, the US, the Middle East and Europe, particularly to Germany, where the brand is well recognised as innovative, convenient and highly qualitative. Among Sin Hwa Dee's customers are major retail chains, international fast-food chains, restaurants, hotels, major airlines and caterers. The company also provides OEM and contract manufacturing services with the support of an in-house R&D team.

As a Singapore-based manufacturer, a prime challenge for Sin Hwa Dee is to stay competitive when exporting internationally due to the high local production costs. Both raw materials and labour are expensive in Singapore. Additionally, Singapore-based F&B companies are subjected to strict sanitary regulations and labelling requirements. While Sin Hwa Dee believes that a rigorous health regulator regime in the F&B

industry are important to assure quality standards, the company had to develop a strategy that would allow them to remain successful in foreign markets, where standards may be less stringent and overheads cheaper. Accordingly, the company builds on Singapore's decisive advantage – an elaborate Free Trade Agreement (FTA) network. Currently, Singapore has 24 FTAs in force that grant Sin Hwa Dee preferential access into all of its important markets. "Tariffs for sauces and condiments can be very high; sometimes even up to 20%. Therefore, utilising FTAs allows us to save a lot on taxes. We extend these savings to our customers and this helps us to stay competitive abroad. This is why we have a long history of using FTAs", according to Jocelyn Chng, Managing Director of Sin Hwa Dee Foodstuffs. To date, the company actively taps into FTAs with Australia, China, India and Japan – just to name a few – and has developed sophisticated internal capabilities for trade and FTA compliance.

As many customers of Sin Hwa Dee are located in Europe, the company welcomes the entry into force of the EU-Singapore Free Trade Agreement. The Agreement grants the company immediate benefits. For instance, tariffs on soya sauce (HS 2103 10 00) have dropped from 7.7% to 5.6% since the Agreement took effect on 21 November 2019. The remaining tariff rate will be eliminated by November 2021. While it usually takes the company around six months to feel the impact of FTAs, such tariff cuts will most certainly improve Sin Hwa Dee's export performance to Germany and Europe. Furthermore, the EUSFTA employs self-certification. This means less of an administrative burden for Sin Hwa Dee Foodstuffs' trade compliance team when exporting under the EUSFTA.

Sin Hwa Dee's efforts to leverage on FTAs, such as the EUSFTA, clearly showcases how manufacturers can utilise FTAs to expand their business internationally.

# Addressing technical barriers to trade in the EU-Singapore Free Trade Agreement



## Cost saving for Kärcher Singapore through addressing conformity assessment procedures

Kärcher is the world's leading provider in cleaning technology. Founded in 1935, the company made a breakthrough into the cleaning industry with the development of the first European hot water high-pressure cleaner. Headquartered in Winnenden, Germany, it now offers a diverse range of cleaning solutions including pressure washers, vacuums and steam cleaners, home and garden pumps, sweepers and floor scrubbers as well as vehicle washers. Kärcher is committed to providing effective, efficient and environmentally friendly cleaning products. It ensures that sustainability starts with the development of the product and continues through production, supply chain and waste disposal management.

With factories in Mexico, Italy, Brazil, the United States, China and Germany and a customer-base in 160 countries, Kärcher sees free and open trade to be of pivotal importance and leverages on Free Trade Agreements whenever possible. This is why since the entry into force, "Kärcher Singapore has been working on a strategy on how its customers can benefit from the EU-Singapore Free Trade Agreement", according to Vincent Sim, General Manager of Kärcher Singapore.

Tariffs on importing cleaning technologies are usually high. This is not the case in Singapore as the city-state has already abolished all relevant tariffs for such products. Accordingly, the company does not benefit further from the reduction of tariff barriers with the EUSFTA entering into force. Instead, Kärcher stands to gain from the reduction of technical barriers to trade provisions in the EUSFTA:

Upon importation, some of Kärcher's products are subjected to Conformity Assessment Procedures (CAP). For instance, in Singapore, vacuum cleaners intended for household use with a voltage of not more than 240v are classified as 'Controlled Goods' and have to undergo double testing prior to being admitted into the market. While such tests and certifications are necessary to safeguard consumer safety, they are costly and are associated with much administrative burden. Such local testing can take up to 5 working days and/or cost up to S\$700 for each test. The EUSFTA seeks to grant electronics from Germany to be admitted into Singapore on the basis of a Supplier Declaration of Conformity (SDoC), which would require Kärcher to declare conformity with Singapore's standards, technical regulations and further specific requirements rather than having to undergo additional testing and certification.

Beyond this, in the EUSFTA, the EU and Singapore have agreed to base domestic standards and technical regulations on international standards as well as to not unduly delay the placing of products on the grounds that it incorporates a new technology or feature. As an innovative company, Kärcher continuously works on optimising and improving its product technology and thus, such provisions help Kärcher make its newest products available quickly in the Singaporean market.

# The EUSFTA facilitating cross-country collaboration and manufacturing



## Acumen Research Laboratories' expectations of the EUSFTA

Acumen Research Laboratories (ARL) is a Singaporean molecular diagnostics company that develops genetic tests for rapid diagnosis for sepsis and infectious diseases, including pathogen identification and associated antibiotics resistance. ARL also provides a comprehensive range of customised, high-quality services in development of new diagnostic tests, as well as clinical laboratory testing.

As a fast-growing R&D-intensive company, ARL has established partnerships in Singapore, Japan, China and Germany which it plans to consolidate in the near future. In particular, ARL is exploring the possibility to expand the collaboration with its German counterparts by assessing whether to proceed with manufacturing activities in Singapore. Doing so would require them to license technologies from their German counterparts and localise these in Singapore. The EUSFTA entering into force is thus very much welcomed by ARL as it will make this transaction easier if ARL and their German partner end up following through with their collaboration:

- ▶ Above all, this decision will require substantial amount of procurement activity, since ARL would utilise the same suppliers for raw materials, parts and components than their German counterparts. As the EUSFTA facilitates the movement of goods between Germany, the EU and Singapore by simplifying, harmonising and standardising customs procedure, the EUSFTA will certainly make the movement of parts and components from Germany to Singapore easier, especially when setting up the automated production line in the city-state.
- ▶ Furthermore, any type of cross-country collaboration requires that regulatory regimes share at least a certain degree of convergence or a set of minimum standards. By promoting the use of international standards, practices and guidelines, the EUSFTA does exactly this and will make a potential long-run collaboration easier.

- ▶ Lastly, as ARL would license technologies from Germany, these activities constitute a transaction of Intellectual Property (IP). While both the EU and Singapore have strong IP systems in place, the EUSFTA reaffirms Singapore's, Germany's and the EU's commitment to upholding comprehensive IP protection and enforcement. It thus provides the necessary reassurance needed when entering into such cross-country co-operation.

Besides promoting potential cross-country collaboration, the EUSFTA will also help Singapore's pharmaceutical sector as the EU has agreed to recognise Singapore's standards of "Good Manufacturing Practices" (GMPs) in the manufacturing of Active Pharmaceutical Ingredients (API) as equivalent to its own. Dr Siew Hwa Ong, Executive Director and Chief Scientist of Acumen Research Laboratories, explained that it may become very relevant in the medium-term for Singaporean companies. "Currently, all APIs come from a number of the largest global pharmaceutical companies. Singaporean pharmaceutical companies mostly undertake contract manufacturing for those pharmaceutical giants. However, this will most likely change in the next five to fifteen years with much investment and R&D focusing on API research in Singapore. Once we get there, and we will, this feature of the EUSFTA will help us tremendously in accessing the EU market".

Acumen Research Laboratories is a great example to show how the EUSFTA may facilitate a potential co-operation between Germany and Singapore in an R&D-intensive sector. Besides that, the EUSFTA entails forward-looking provisions that facilitate market access for APIs once the Singaporean market is mature enough to export these in bulk to Germany and other European markets.

## EUSFTA: A Reality Check

The previous section illustrated how impactful the EUSFTA can be on companies by removing tariff and non-tariff barriers. Yet, it is important to note that in the SGC's Trade and EUSFTA survey, 41% of respondents indicated that the Agreement will only help them to a small extent to overcome current trade barriers, while 13% asserted that the EUSFTA does not address current barriers they face. Moreover, over a third of the surveyed companies also argued that the EUSFTA will not improve their export performance.

How can this be explained? There are three key reasons:

- ▶ Above all, the EUSFTA (and Free Trade Agreements in general) does not guarantee for seamless or frictionless trade as it does not lead to the formation of a single market with a common set of policies. Instead, it has to be viewed as a tool to facilitate trade. Companies will still have to move products from one trading regime to the next. That means trade-related rules and procedures (and in some cases also barriers) will prevail. A Singaporean exporter may have to pay lower tariffs since November 2019 when exporting shrimps to Germany but he will still have to undergo the customs clearance and may be subjected to sanitary checks.
- ▶ Some of the key commitments will have to 'phase-in' before companies can enjoy the full benefit of the EUSFTA. For instance, not all tariffs were eliminated when the EUSFTA entered into force in November 2019. Instead, many tariffs were lowered by some percentage points and will be progressively phased out in the years to come. Similarly, companies only have access to certain border enforcement measures relating to IP infringements within two to three years after the EUSFTA has entered into force.
- ▶ Lastly, some benefits of the EUSFTA are conditionalised and companies will have to meet certain terms and conditions so that they can leverage on the Agreement. The most notable example is tariffs to trade:
  - ▶ While the EU is progressively eliminating tariffs under the EUSFTA, companies will still have to fulfil the Rules of Origin (RoOs). RoOs set out conditions to obtain preferential tariff treatment under Free Trade Agreements. In the EUSFTA, products will either have to be 'wholly obtained' or at least undergo 'substantial transformation'. The former means products will have to 'fully come from' Singapore or the EU (i.e. grown, harvested or reared). This rule mostly applies to agricultural products. Industrial products will, for the most part, have to at least undergo "substantial transformation". For the substantial transformation requirement, there is not a uniform rule. Instead, the EUSFTA entails product-specific rules/ specifications, whereby different product categories will require different work, processing or value-adding activity to qualify. Companies that wish to benefit from the preferential tariff treatment must spend some time to understand these rules. This is because if a manufacturer cannot comply with the aforementioned RoO requirements they will have to pay the standards tariff upon exportation even if the EUSFTA promises a lower, preferential tariff. All Rules of Origin are listed in the Chapter on Rules of Origin in a schedule (Annex B).

Overall, the key takeaway is that companies will have to manage their expectations. The EUSFTA will certainly not solve all trade-related challenges when moving goods and services cross-border. Moreover, simply because the EUSFTA promises to address certain trade barriers it does not guarantee that those benefits are (immediately) accessible to all companies. This is why it is of utmost importance for companies to spend some time to study the text of the agreement to understand how the agreement affects their operations and cross-border movement of goods and services.



## Moving forward: What Can Companies Do?

The previous section has alluded to the fact that companies have to manage their expectations since some benefits of the EUSFTA are conditionalised, whilst others will only phase-in in the next few years (generally speaking 3 to 5 years). Additionally, some procedural aspects will only be clarified in the months to come. So what can companies do?

It is advisable that companies spend some time to **study the agreement to understand the impact of it on their business, applicable compliance requirements, as well as what procedural steps exist to successfully unlock the benefits of the EUSFTA**. Ideally, companies should develop an internal EUSFTA strategy. For companies that have little experience in using Free Trade Agreements, the following steps may be a useful starting point in leveraging on the EUSFTA:

Steps to successfully leveraging on the EUSFTA		Example: Exporting organic chemicals from Singapore to Germany
Map the trade barriers your company faces when engaging in cross-border trade		<ul style="list-style-type: none"> <li>The organic chemicals Captafol (ISO) and Methamidophos (ISO) face a 6.5% tariff.</li> </ul>
Identifying opportunities of the EUSFTA	A. Identify if the EUSFTA addresses these barriers	<ul style="list-style-type: none"> <li>The company must consult the EU tariff schedule of commitment.</li> <li>The company will learn that the EUSFTA has already reduced tariffs from 6.5% to 4.8% and will eliminate the tariff rate by 21 Nov 2022.</li> </ul>
	B. Assess whether benefits are conditionalised on certain parameters	<ul style="list-style-type: none"> <li>To obtain the preferential tariff, the company must fulfil the Rules of Origin.</li> <li>The company will consult the designated rules for organic chemicals (HS Chapter 29) in the RoO Chapter.</li> </ul>
	C. If requirements are not met, assess whether it would be beneficial to adjust business operation	<ul style="list-style-type: none"> <li>Provided that the company manufactures Captafol and Methamidophos in which the value of all “non-originating” materials does not exceed 40% of the Ex-Work prices of the products, the company can export at a tariff rate of 4.8%.</li> </ul>
Comply with administrative steps and record retention requirements		<ul style="list-style-type: none"> <li>The RoOs also set out the administrative requirements for the preferential tariffs.</li> <li>No certificate of origin will be required as the EUSFTA works with self-certification: The company will declare the origin of the product on its invoice.</li> <li>Record retention period is 3 years.</li> </ul>

While it is certainly not a simple undertaking to work through the EUSFTA, it is also not an impossible task. It simply requires some preparation and planning. **The EUSFTA text contains all relevant information you require to unlock the benefits of this agreement.** Besides that, the EU Commission<sup>7</sup> and Singapore Ministry for Trade and Industry (MTI)<sup>8</sup> have publicised ample material and useful guidelines which companies can refer to when mapping out their EUSFTA strategy. If you require assistance beyond the information provided, please contact us at [robin.hoenig@sgc.org.sg](mailto:robin.hoenig@sgc.org.sg)

<sup>7</sup> <https://ec.europa.eu/trade/policy/countries-and-regions/countries/singapore/>

<sup>8</sup> [https://www.mti.gov.sg/-/media/MTI/Images/Improving-Trade/FTA\\_Booklet\\_Final.pdf](https://www.mti.gov.sg/-/media/MTI/Images/Improving-Trade/FTA_Booklet_Final.pdf)

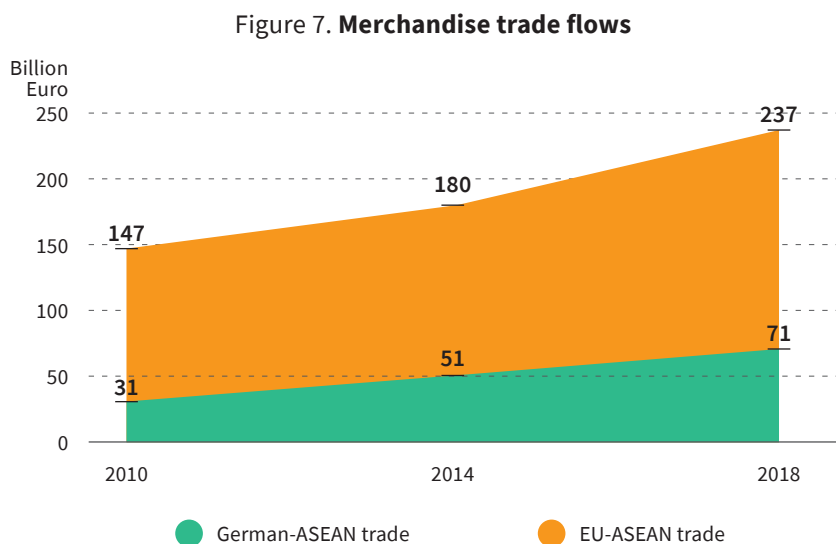
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## **The EUSFTA as the first step towards an EU-ASEAN Free Trade Agreement**

Prior to the negotiations of the EUSFTA, the EU and the ten ASEAN member states have been actively negotiating a Region-to-Region Free Trade Agreement. These commenced in 2007 and were halted in 2009 in order to give leeway for bilateral free trade negotiations. This was deemed as appropriate at the time since negotiations made little substantive progress due to a lack of consensus on a handful of topics and absence of political will of some ASEAN members to consider the depth as liberalisation as expected under the EU's new trade strategy.

Today, ten years after the EU-ASEAN FTA negotiations were halted, the EU has one agreement in force (Singapore); another one signed (Vietnam). The latter will most likely be ratified in the first quarter of 2020. Furthermore, the negotiations with Indonesia have made some progress over the last two years with nine rounds of negotiations concluded as of December 2019. After Thailand's democratic elections in 2019, it is expected that negotiations between the EU and Thailand will resume in the course of 2020. Lastly, negotiations with Malaysia and the Philippines are in relatively early stages and have been paused for some years now. While evidently some progress has been achieved, much work needs to be done.



As trade between Germany, the EU and ASEAN member states has reached an all-time high last year despite growing trade uncertainties (see Figure 7), Free Trade Agreements have become more relevant than ever. In fact, in 2018, more than twice as many trade-related transactions have occurred between Germany and the ten ASEAN markets compared to 2010, with bilateral merchandise trade having increased by 129%. This speaks volumes. The successful conclusion and entry into force of further Free Trade Agreements between the EU and ASEAN members would certainly reinforce this trend and bring about much-needed market liberalisation, remove key barriers to trade, and foster supply chain integration as well as foreign direct investments.

The 2020 trade policy landscape should therefore be marked by:

- ▶ the ratification and entry into force of the EU-Vietnam Free Trade Agreement
- ▶ substantial progress on, if not conclusion of, the EU-Indonesia Free Trade Agreement
- ▶ the resumption of trade talks with Thailand, Malaysia and the Philippines

Since the aforementioned Trade Agreements will act as building blocks towards achieving a region-to-region Free Trade Agreement, it is of utmost importance that bilateral ASEAN FTAs are:

- ▶ modern and comprehensive (robust rules on e-commerce, self-certification, Mode 5 considerations, etc.),
- ▶ SME friendly (i.e. simplified rules of origin and customs procedures)
- ▶ entail harmonised rules to the largest extent possible (i.e. technical regulations)<sup>9</sup>

As the EUSFTA is modern and comprehensive, it can certainly serve as a blueprint for further engagement with ASEAN members while taking into account country-specific needs and recent developments in the digital economy.

<sup>9</sup> The Association of German Chambers of Industry and Commerce (DIHK) has published a position paper on International Trade Policy – For a Modern Trade Policy – Against Protectionism that outlines key aspects such FTAs should include.  
<https://www.dihk.de/resource/blob/4174/9c7447955c9539aa19ea4bb00c3ee0a9/dihk-position-on-international-trade-policy-data.pdf>

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