COMPULSORY ORIGIN MARKING RESEARCH

Phase 3: Impact on Smaller Businesses

AUGUST 2015

BIS

Compulsory Origin Marking research (URN: BIS/15/291)

Phase 3 report

Report Name	**Origin Marking research – phase 3 report**
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Key

The following table provides definitions for each of the following terms used throughout the report. In particular, as the report presents qualitative findings based upon a limited sample, it was not always deemed appropriate to state %s within the report. The table therefore provides a definition for some of the more broad qualitative terms used to describe the extent of the sample.

Table 1: Definition of terms

Term	Definition
COM	Compulsory Origin Marking
COO	Country Of Origin
OM	Origin Marking (whether voluntary or compulsory)
Negligible costs / benefits	Cost / benefit acknowledged but almost no discernible effect on organisation resources i.e. absorbed.
Marginal costs / benefits	Cost / benefit noticeable but no significant effect from it on resources
Substantial costs / benefits	Significant effect upon the organisation's resources i.e. assumed to affect competitive advantage.

1 Introduction

1.1 Objectives

Phase 2 of the research into COM comprised qualitative interviews with a limited number of businesses and wider stakeholders in four sectors – ceramics (principally tableware), consumer electronics (principally audio equipment), cars and motorbikes, and toys.

The sample of businesses contained a disproportionately high number of larger businesses in each sector that tended to have an international presence and be well-versed in COO requirements and rules in different jurisdictions. This seemed to be a factor in the general response to EU COM being fairly neutral i.e. no benefits envisaged but few concerns about substantial cost being incurred.

It was hypothesised that smaller businesses – with limited (or no) experience of COM compliance and fewer resources (both employees and expertise) – would find it more difficult to address COM requirements.

On that basis, it was agreed that the third and final phase of the research should be focused upon SMEs and in particular businesses with less than 50 employees (i.e. micro and small businesses). This phase explored with SMEs:

- Awareness of, and familiarity with, existing non-preferential Rules of Origin
- The extent of export to countries with COM requirements
- The extent of voluntary marking
- Awareness of, and familiarity with, the Commission proposal for EU COM
- Attitudes to the proposal, in particular perceptions of costs and benefits.

1.2 Approach

To encourage participation, this phase 3 element comprised a quantitative telephone survey much shorter than the qualitative one conducted in phase 2, but with comparable question areas.

The survey also focused on similar sectors to the four listed in section 1.1.1, except that cars and motorbikes were excluded[1].

[1] It was anticipated that there would not be many – if any – SME car manufacturers and retailers.

A commercial database provider (Experian) was used to source SME records[2] and a set number of days were allocated to obtain as many interviews as possible. In total, **126 SME businesses were interviewed.** The breakdown of interviews – by SIC and FTEs size group – was as follows; the table also includes the numbers of SMEs that do not import or export (and therefore would not have direct obligations under the proposed regulations):

Table 1: Breakdown of phase 3 interviews by SIC and business size (FTEs)

SIC	0-9 FTEs	10-49 FTEs	Number that import only	Number that export only	Number that import AND export	Number that do neither	
2341 - Manufacture of ceramic household and ornamental articles	13	7	4	4	8	4	20
4649 - Wholesale of 'other household goods[3]'	14	5	5	2	5	7	19
2640 - Manufacture of consumer electronics	4	1	2	2		1	5
4743 - Retail and sales of electrical and audio equipment in specialised stores	22	3	4	1	5	15	25
3240 - Manufacture of games and toys	14	6	3	7	8	2	20
4765 - Retail and sales of games and toys in specialised stores	18	5	6		7	10	23
Other[4]	12	2	2	4	1	7	14
TOTAL	**97** (77%)	**29** (23%)	**26** (21%)	**20** (16%)	**34** (27%)	**46** (36%)	**126**

[2] A large number of records were unusable either due to not being in the target SICs, not having a working phone number or having ceased trading.

[3] There is no SIC focused upon retail of ceramic goods in particular; this means that in weighting – see below – it is possible that the interviews with these businesses have been weighted to a figure higher than the actual number, though 4,370 UK businesses selling ceramic products does not seem unrealistic.

[4] We interviewed a small number of SMEs in sectors close to – but not in – the three being focused upon. Whilst these interviews have been included in the analysis, they have not been weighted (as weighting the interviews to the 'rest of UK SMEs' population would skew the results) and the group – being n=14 – cannot be considered representative of such a large population anyway.

Overall, 63% of SMEs in the sample either import[5] from outside the EU or export outside of the EU. 70% of the sample overall could have direct obligations under the proposed regulations. **Where appropriate, results in this report will be broken down into three groups:**

- **Group 1: manufacturers [n=48];**
- **Group 2: retailers that may have obligations [n=41];**
- **Group 3: retailers that would not have obligations [n=37].**

The interviews were weighted to the population in each sector and size (by employees) according to ONS statistics[6].

It should be emphasised that the results from the survey are based upon responses from 126 SMEs in a specific set of sectors. As such, they cannot necessarily be considered representative of all UK SMEs (e.g. from responses to the phase 2 survey – and those channelled through trade associations - the ceramics sector appears enthusiastic than the other surveyed sectors about the prospect of COM). In addition, comparisons of sub-groups are based upon small sample sizes and so are subject to larger confidence intervals.

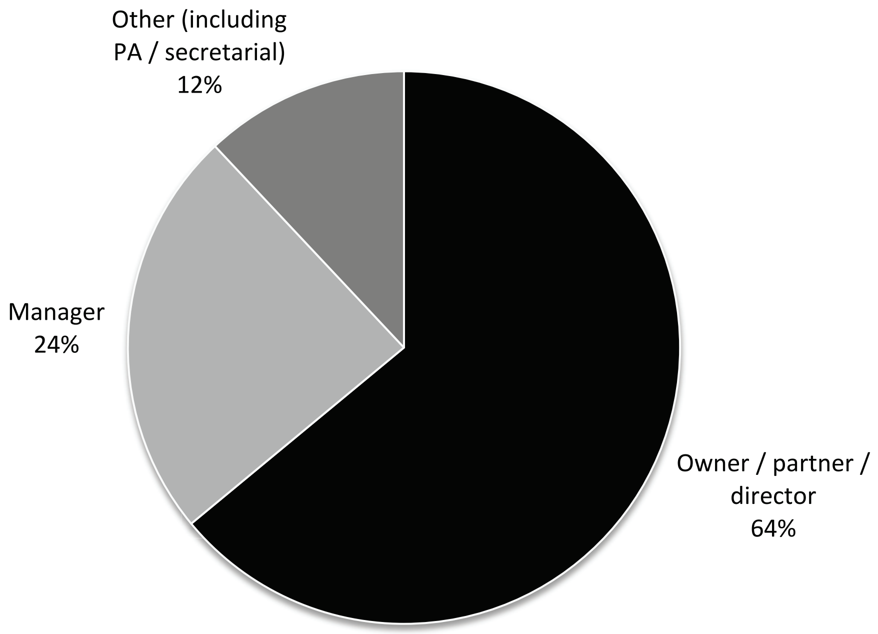
[5] For clarity; this could mean that they manage import, or could mean that they simply stock items from outside the EU and a third party manages the import process.
[6] http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-313744

1.3 Respondent profile

It was noted throughout data collection that even once the purpose of the call had been fully explained, many of those answering calls were unsure who to put the interviewer through to. This implies that many SMEs do not engage closely with product labelling (although for retailers this may not be linked to business size at all).

The chart below shows the split of those who responded to the survey by role:

Figure 1: Roles of respondents to the phase 3 survey [n=126; N=7,845]



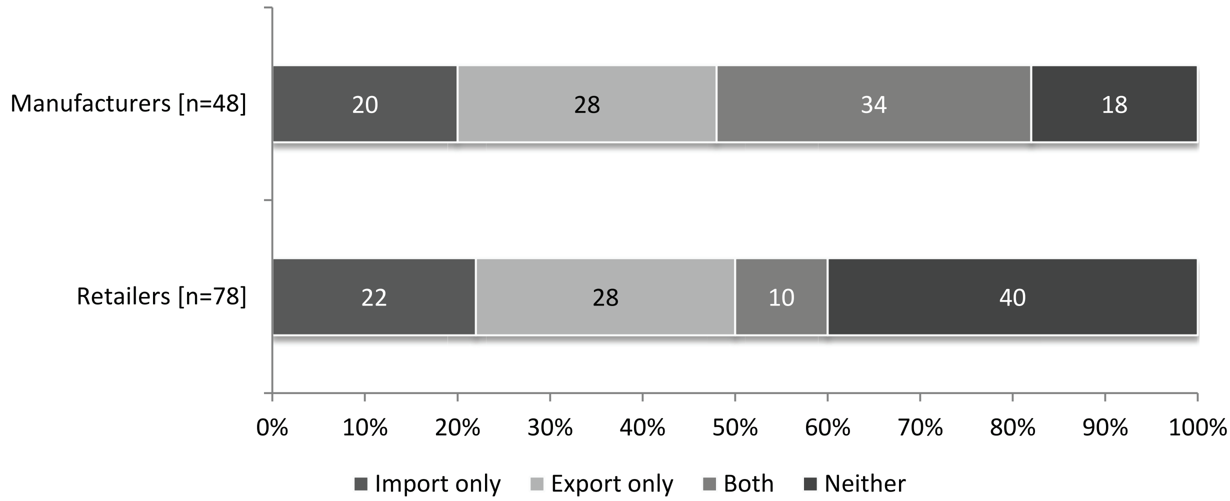
The chart – and observations from interviewers – indicate that those in a position to discuss product labelling tended to be the most senior in the business, though this was often more from necessity (i.e. no one else was able to discuss it) than because labelling and product QA was a formal part of their role.

There was no significant difference between manufacturing SMEs and retail importers in terms of the seniority of person nominated to discuss labelling.

1.4 Business trading profile

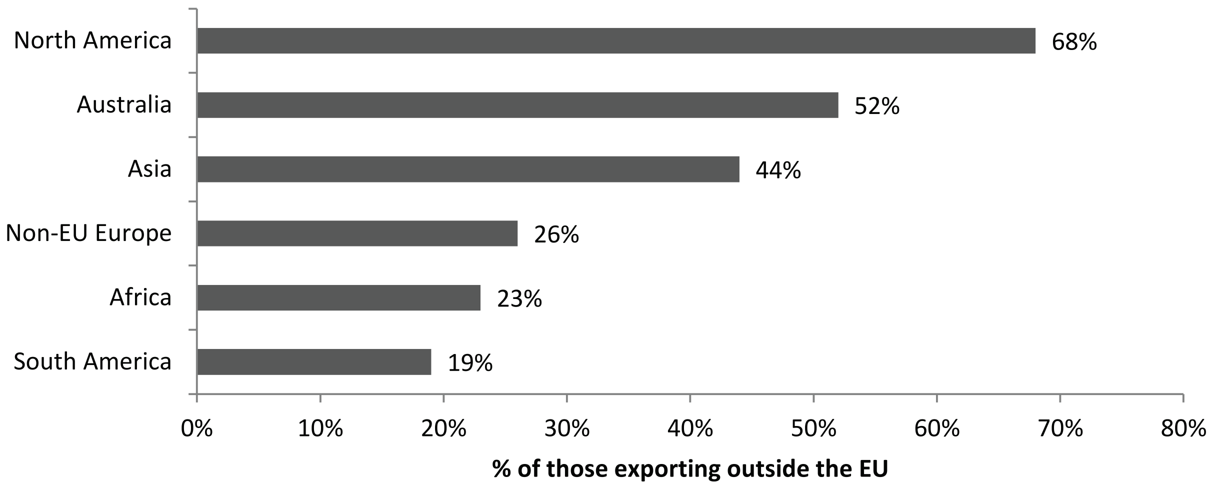
50% of SMEs reported that they import products from outside the EU, whilst 35% reported that they export products outside the EU. 22% reported doing both and 37% neither. The chart below shows %s for manufacturers and retailers:

Figure 2: Extent to which manufacturers and retailers import and export[7] [n=126; N=7,845]



Those that export were asked about the principal markets they sell goods to:

Figure 3: Extent to which exporters cited each continent as a source / market [n=55; N=2,769]



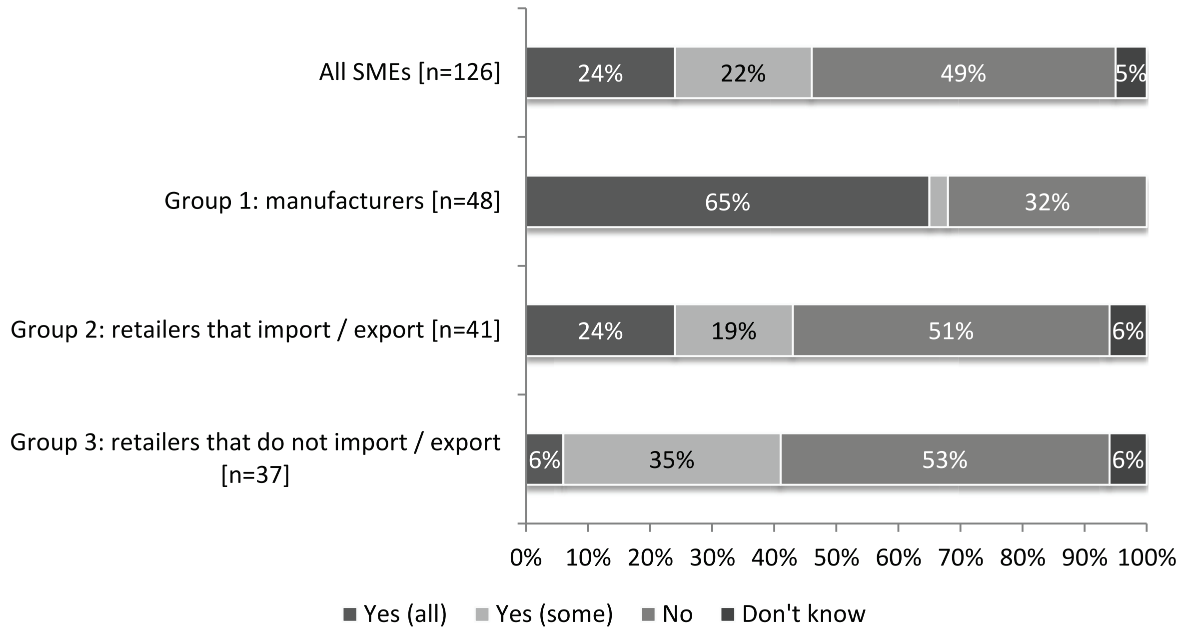
[7] Although not explored, export activity by retailers is likely to comprise businesses that transfer stock to their sites in other countries or those providing distribution services through on-line sales.

2 Origin Marking

2.1 Current use

All respondents were asked if their products carried 'Made in...' labels. The breakdown of responses is shown below:

Figure 4: Extent of use of 'Made in...' labels [n=126; N=7,845]



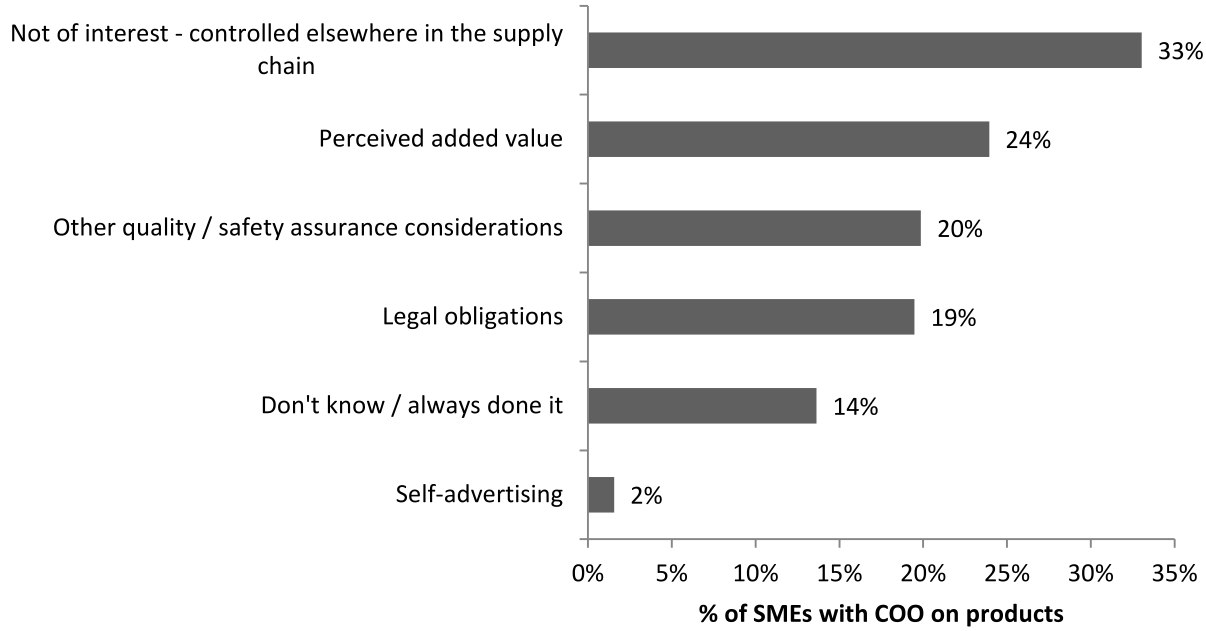
Although it was hypothesised that SMEs would be less involved with, and aware of, Origin Marking, still almost half of those in the sectors of interest to this study include such labelling on at least some of their products. The extent to which the retailers themselves put labels on products (or simply sell products that have labels on) was not explore, though this could be inferred from responses in Figure 9 [below] and by the extent to which they anticipated substantial costs arising from COM.

Manufacturers exporting outside the EU were the most likely group to include labels on their products.

2.2 Reasons for doing OM

All SMEs reporting that at least some of their products carry COO were asked why:

Figure 5: Reasons given for COO being on products [n=71; N=3,659]



The chart highlights that around half of the SMEs with products that carry COO (mostly comprising importing / exporting retailers) do not know why this is, usually because it is not their responsibility.

Where respondents reported that only *some* of their products carry origin marking, they were asked to explain this i.e. what determined whether or not a label was placed on the product? Considerations included:

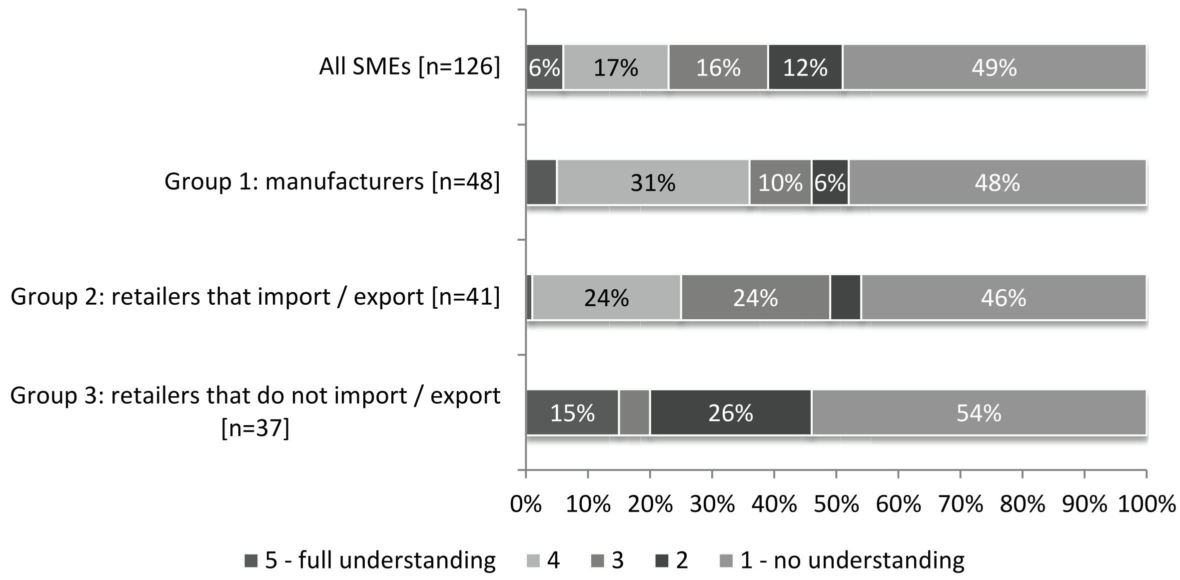
- The destination of the product; products being exported to countries requiring OM are marked, others not (or less so).
- Marketing; products being marked or not marked depending upon whether the COO is anticipated to carry some desirability / added value in the country being exported to.
- Practicality; OM is included on products that can carry it but not where the product and packaging have no practical place to put it.

2.3 Understanding of current roles

The lack of acknowledgement of legal obligations indicates a potential lack of understanding of rules around COO i.e. some of those exporting outside the EU and doing COO were not aware that they were doing this because of any legal obligation (presumably it is due to perceptions of 'Made in UK' market advantage). However, 83% of the same sample recognised manufacturer or importer responsibility for ensuring correct COO marks on products, with only 11% not being sure where this responsibility lies.

When asked to self-rate their understanding of non-preferential rules for determining country of origin for the products they make / sell / import; the breakdown of responses across the 1 – 5 scale were as follows:

Figure 6: SME self-rated understanding of current rules governing OM [n=126; N=7,845]



Self-rating responses carry a number of caveats i.e. some respondents may not want to appear overconfident whilst others may not want to rate themselves low in an area they feel they should understand. In addition, it should be emphasised that even a 2/5 rating implies some knowledge and that use of 'non-preferential' may have confused respondents i.e. they understand the rules but are not aware of that terminology.

However, whilst a large proportion of non-importing / retail SMEs might have no reason (at present) to understand non-preferential rules of origin:

a. There was no significant difference between the three sample groups in terms of self-rating breakdowns[8].
b. The fact that almost half of SMEs claimed to have no understanding indicates that a steep learning curve will be required should the EU COM be introduced.

Overall the evidence seems to indicate that compared to the phase 2 respondent group, understanding and knowledge of COO rules amongst businesses that have such responsibilities is clearly worse. Only 6% of SME respondents claimed to fully understand the current rules, whilst most phase 2 respondents claimed to have good understanding.

2.4 Sources of information

Regardless of their self-rated level of understanding, respondents were asked whether they would know where to obtain information on COO rules if they needed to.

Only 39% said that they would know where to obtain such information[9] and in most cases these were the SMEs rating their existing understanding highly anyway; 99% of those self-rating 4/5 or 5/5 said that they would know where to get information, compared to 17% of those self-rating 1/5 or 2/5.

This is again a gap for businesses that might be affected by the EU COM, and a contrast – in terms of both awareness of a source and the nature and quality of that source - to the large businesses covered in phase 2, many of which have full time legal departments and / or import and export consultants.

[8] Though this should come with the caveat that the more businesses explore this field, the more they may become aware of what they don't know, and so rate low.
[9] And in most cases responses implied that they would just search on-line as opposed to knowing of a specific website that would provide the information.

3 EU COM proposals

3.1 Awareness and understanding

All respondents were informed of discussions taking place at the EU Commission level about whether or not to make it compulsory to have a 'made in' label on all products. They were then asked about their awareness of these; 21% said that they were aware of the discussions [Group 1; 20%, Group 2; 33%; Group 3; 2%]. Those already doing OM seemed more likely to be aware.

Assuming no understanding for those not aware of the proposal, those aware of it were asked to self-rate their level of understanding of what is being proposed. Only 2% of this group (one business) rated their understanding at a 4/5; no respondent felt that they had a full understanding and more than half rated their understanding at 1/5 or 2/5.

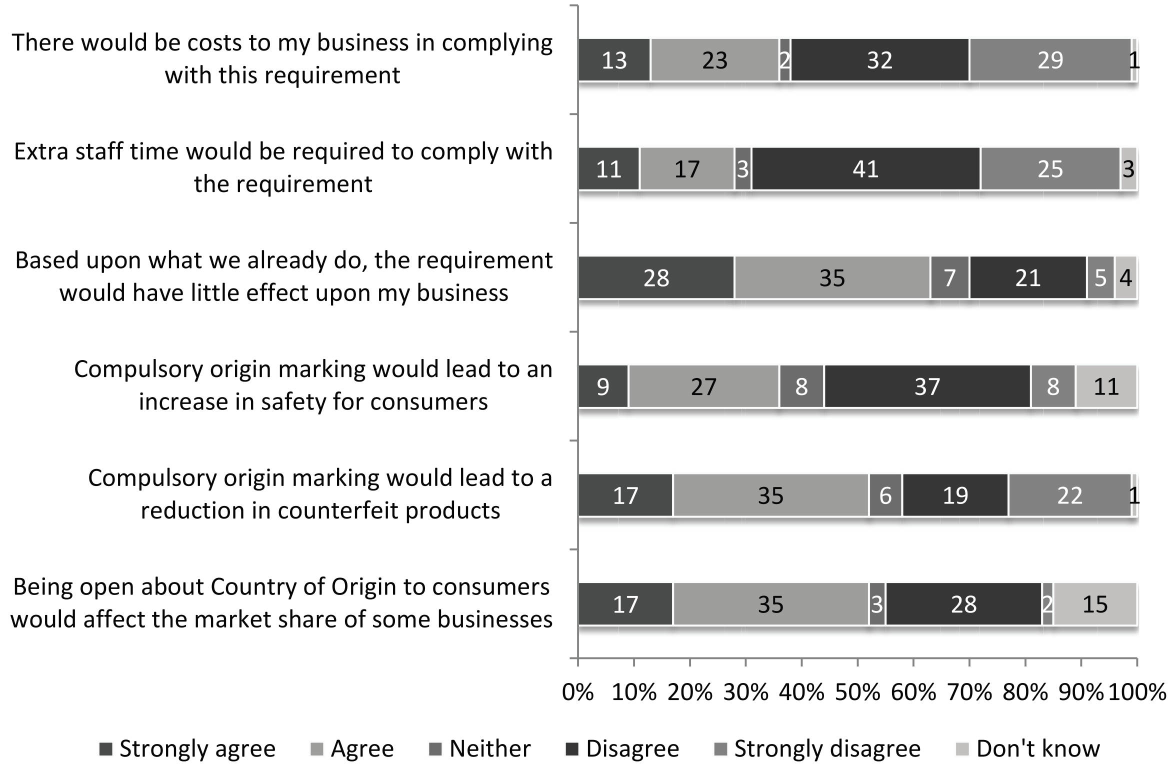
It would not be reasonable to expect most SMEs to fully understand the details of legislation that is not yet implemented or certain to be so. However, it highlights the scale of familiarisation that would need to take place across SMEs should EU COM be introduced.

3.2 Perceptions of impact

All respondents were asked about their perceptions of the effect that EU COM might have through a series of prompted statements. For most, the only information they had to base their assessments upon was that the EU COM would make COO compulsory on all products. Furthermore, the reasoning behind their views was not further explored.

The breakdown of agreement / disagreement to each statement was as follows:

Figure 7: Level of agreement with a series of statements about the possible effects of EU COM [n=126; N=7,845]



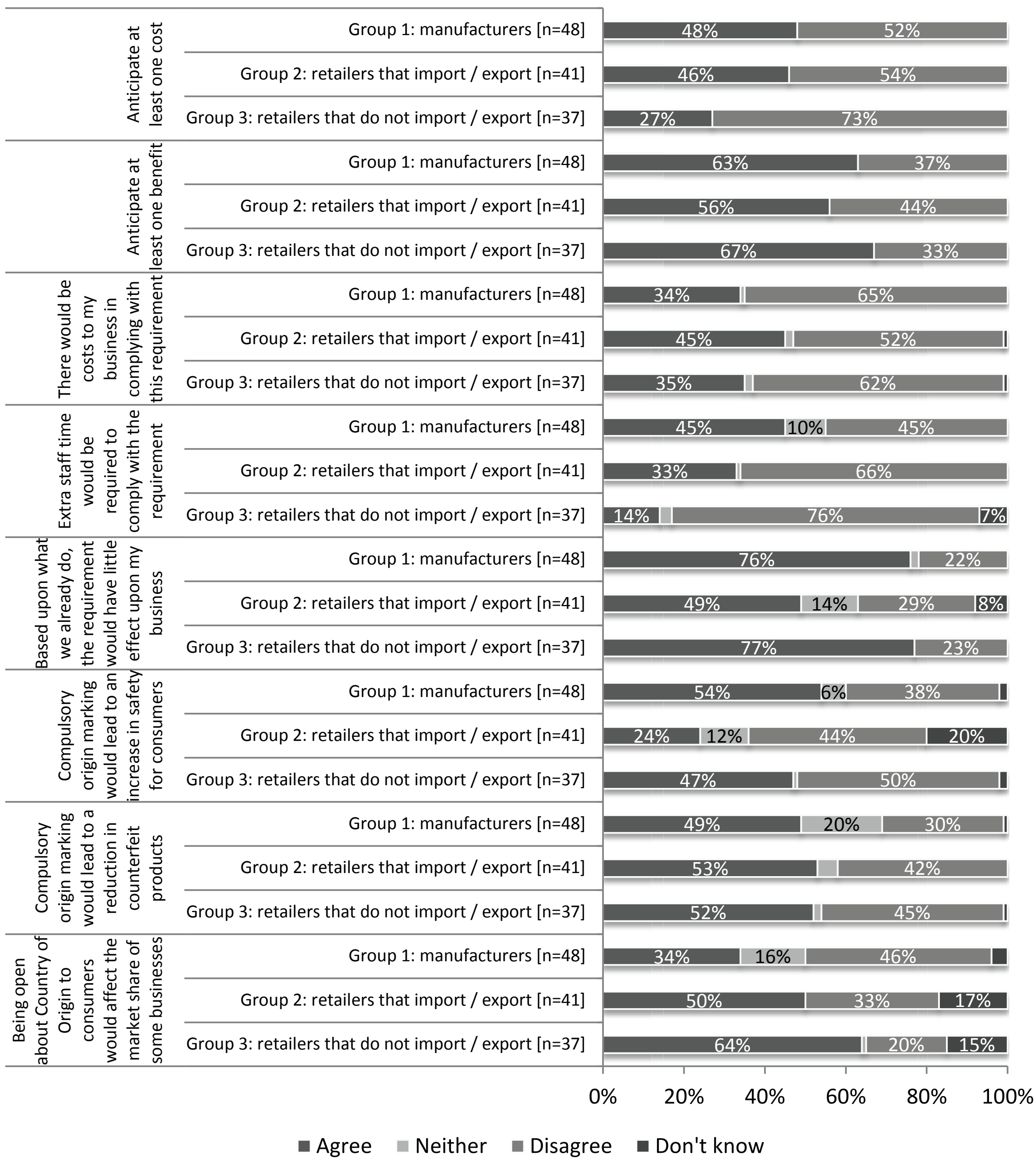
Overall, SMEs seemed equally as likely as businesses in phase 2 to recognise a potential cost to their business[10], but much more likely to feel that the EU COM would generate benefits. Overall, 40% of SMEs agreed with at least one of the two 'cost' statements, whilst 60% agreed with at least one of the two 'benefit' statements. However, anecdotal survey feedback indicated that some SMEs were linking increased information for the consumer with increased guarantee of safety; the research in phase 2 highlighted that when respondents were challenged to explain how safety benefits would be delivered through COM, they struggled to do so.

The chart below provides a simplified breakdown of the results in Figure 12 (simplified in the sense that responses are coded into agree / neutral /

[10] Comparing % agreeing to the % in phase 2 saying COM would bring at least marginal costs. Even some SMEs that would have no responsibilities under COM expected that they may incur costs; this may have been in reference to the supply chain passing on costs, or for establishing small processes to confirm COO even if they are not primarily responsible.

disagree) to enable clearer comparison of the three overarching sample groups:

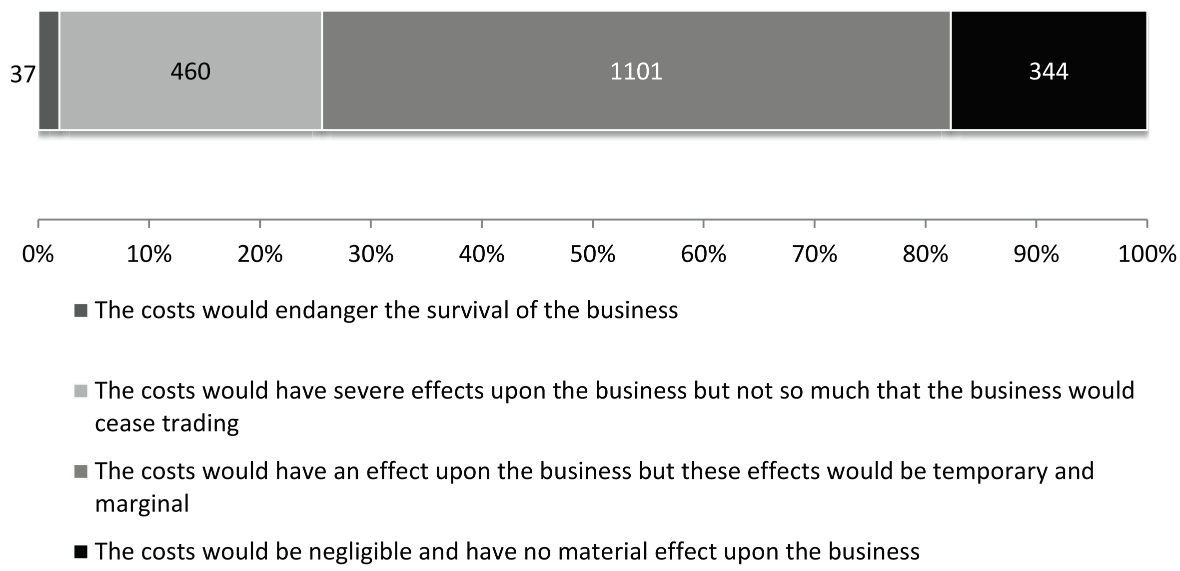
Figure 8: Breakdown across key sample groups on level of agreement with the series of statements about the possible effects of EU COM



Whilst manufacturing firms and those aware of EU COM were slightly more likely to agree that there would be costs, this group were equally as likely as other SMEs to feel that there would be benefits. Again, sample sizes for sub-groups were small.

Where SMEs felt there would be costs (either money or staff) in complying, they were asked about the likely severity of this cost:

Figure 9: Anticipated severity of costs amongst businesses predicting some costs from EU COM compliance - *weighted number of businesses shown in the bars* [n=41; N=1,942]



The chart includes weighted business numbers in the bars to show that the 25% envisaging the compliance costs to be severe (6% of all SMEs surveyed) equate to almost 500 businesses.

4 Conclusions

The survey has generated a picture of SME views on current and proposed OM rules, albeit an important caveat to these findings is that a significant proportion of the sample are not currently – and will not be – affected by the COM proposals. The overall picture from the survey is that:

- Not all SMEs that *are* theoretically responsible for – and *should be complying with* – current OM compliance seem to be fully conversant in these existing rules.

- There will be a steep learning curve for many businesses should EU COM be introduced and most do not seem clear as to where they would obtain information to ensure compliance. Despite this, most do not envisage any costs from compliance and the majority anticipate benefits either in reducing counterfeiting or in increasing consumer safety.

- Even where costs are anticipated, the majority of those SMEs anticipated that these would be marginal and there seems no widespread concern amongst the SMEs as to the prospect of COM. However, 6% did envisage severe impacts from having to comply with EU COM. Extrapolated across the UK SME population this would likely equate to tens of thousands of businesses.

- Aside from current levels of OM activity, there were no significant differences between retailers and manufacturers, or SMEs that import/export outside the EU and those that do not. Manufacturers did not have a noticeably better understanding of the COM proposals and were similar to retailers / importers on cost and benefit expectations of COM.

- The survey indicates two strong contrasts between the (generally larger) phase 2 sample and the phase 3 SME survey sample:
    - SMEs seem to have generally lower awareness and understanding of COO rules and COM proposals.
    - But SMEs seem to be more positive about the EU COM proposals based upon the limited amount of information they have about it.

5 Appendix: Survey script

Introduction

Hello my name is x; I'm calling from Databuild on behalf of the government department BIS (Department of Business, Innovation and Skills). BIS want to understand SME views on product Country of Origin marking *[if clarification is needed;* putting 'Made in Country X' labels on products or packaging]. Responses from businesses taking part will inform UK Government evidence used in policy and regulation negotiations at EU level. The conversation should only last about 5 minutes.

Would you be the best person to speak to about this area? *If not, ask to be signposted to the most relevant person.*

Can I talk to you about this now? *If not, ask to make appointment.*

Survey questions

All conversations will be treated in complete confidence; some may be recorded for my training purposes only.

1. Can I first quickly check how many employees your organisation has?
   a. Less than 10
   b. 10 to 49
   c. 50 or more *[Close Interview if larger than 50; IF ANY CONCERN AT NOT BEING CONSULTED, explain that there has been a separate survey of larger businesses]*

2. Thank you. I'd like to check a few other background details about you and your organisation. Could I ask what your role is within your business? [OE]

3. What does your organisation do? *[OE and categorise to an SIC code; if they do more than one, clarify which generates the highest proportion of their turnover]*
   a. Manufacture of Games and Toys
   b. Manufacture of Consumer Electronics
   c. Manufacture of Ceramic Household and Ornamental Articles
   d. Import of Games and Toys in Specialised Stores

   e. Import of Audio and Video Equipment in Specialised Stores
   f. Import of Furniture/Lighting and other household articles in specialised stores
   g. Other

4. Does your organisation do either of the following? *[Multiple choice]*
   a. Import from outside the European Union?
   b. Export outside of the European Union?
   c. Neither [x]

5. *[If yes to 4b]* Which countries do you export to? *[OE]*

6. Do you have “made in...” labels on your products?
   [Prompt; select one option]
   a. Yes, all
   b. Yes, some – on what basis is it decided whether to add or not? [OE]
   c. No
   d. Don’t Know

7. *[if selected 6a/b]* Which of the following are reasons why you place / have a “made in...” label on your products? [*Prompt options; multiple choice]*
   a. Export to countries that require it
   b. Participate in a voluntary labelling scheme which has certain requirements
   c. Other?
   d. Don’t know

8. *[if selected 6a/b]* Within your supply chain, who is responsible for making sure that the “made in…” label is on the product i.e. which organisation would be penalised if it wasn’t? [OE]

9. How would you rate your knowledge of non-preferential rules for determining country of origin for the products you make / sell / import, on a scale of 1 to 5 with 5 equating to a full understanding and 1 equating to no understanding?

10. Would you know where to find out about these if you needed to?
    a. Yes – where would you go? [OE]
    b. No

11. There are discussions at the EU Commission level about whether or not to make it compulsory to have a "made in" label on all products. Were you aware that these discussions are taking place?
    a. Yes
    b. No

12. *[if selected 11a]* How would you rate your knowledge of this proposed change to country of origin marking, on a scale of 1 to 5 with 5 equating to a full understanding and 1 equating to no understanding?

13. Assuming the proposals for Origin Marking were put in place, making it compulsory to put a "made in" label on all products, to what extent would you agree or disagree with the following statements: *[Prompt all – options are 'strongly agree', 'agree', 'neither', 'disagree', 'strongly disagree']*
    a. There would be costs to my business in complying with this requirement
    b. Extra staff time would be required to comply with the requirement
    c. Based upon what we already do, the requirement would have little effect upon my business
    d. Compulsory origin marking would lead to an increase in safety for consumers
    e. Compulsory origin marking would lead to a reduction in counterfeiting
    f. Being open about Country of Origin to consumers would affect the market share of some businesses in my sector

14. [*For those who at least agree with statement 13a or 13b*] Thinking about the money and / or time costs of complying with the proposed Country of Origin marking requirement, which of the following best describes the scale of these for your business: *[prompt options; single choice]*

a. The costs would endanger the survival of the business
b. The costs would have severe effects upon the business but not so much that the business would cease trading
c. The costs would have an effect upon the business but these effects would be temporary and marginal
d. The costs would be negligible and have no material effect upon the business

15. Do you have any other comments further to what we have discussed?
    a. Yes [OE]
    b. No

Thank and close

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