



## **A renewed trade policy for a stronger Europe**

### **Consultation Note**

*16 June 2020*

#### **I. Introduction**

As announced in its recent proposal on Europe's post-coronavirus recovery "*Europe's moment: Repair and prepare for the next generation*<sup>1</sup>", the European Commission is launching a review of the EU's trade and investment policy. Two key objectives are driving this process. First, to assess how trade policy can contribute to a swift and sustainable socio-economic recovery, reinforcing competitiveness in the post-Covid 19 environment, addressing the challenges the EU will face, and helping to promote our values and standards. Second, to see how trade policy can help build a stronger EU based on a model of "Open Strategic Autonomy"—reaping the benefits of openness for our businesses, workers and consumers, while protecting them from unfair practices and building up our resilience to be better equipped for future challenges.

In essence, this policy review will set the political direction for EU trade and investment policy in the years to come.

As an essential part of this review process, and in line with our commitment to engage in a transparent way with our citizens and stakeholders, we are launching a public consultation to gather broad input on the themes and questions developed below.

We welcome input from all stakeholders: industry, social partners, civil society and our citizens. In particular, we are keen to hear from the many small and medium-sized enterprises (SMEs) that constitute the backbone of our exporting economy, in order to identify how trade policy can support them in accessing foreign markets and expanding their range of customers and suppliers. The responses received will help the European Commission to formulate the direction of EU trade policy for the medium-term.

#### ***The context***

Trade is a major part of the EU economy and, indeed, of our day-to-day lives. It supports many of our jobs, and gives us a wider variety of consumer choice. International trade drives our prosperity and that of our global partners. Over the past decades, the EU has been a major beneficiary of the interconnected, global economy with external trade accounting for almost 35% of our Gross Domestic Product (GDP), while the value of Foreign Direct Investment stocks in the EU, relative to GDP, represents 40%. The EU's openness before the Covid-19 crisis ranked among the highest in the world, with 35 million European jobs depending on exports and 16 million European jobs depending on foreign investment. In other words, one out of seven jobs today depends on exports – two thirds more than in 2000.

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<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1590732521013&uri=COM:2020:456:FIN>

Trade has also been particularly important for our SMEs. They represent 87% of all EU exporting companies and are a driving force for EU export performance. Finally, the EU is also the largest investor in the world, with a stock of over €8.7 trillion held by EU investors abroad, contributing to the competitiveness of EU companies. Global private investment needs will only increase in the years to come in order to help us reach the UN's sustainable development goals (SDGs)<sup>2</sup>.

While exports are often used as a metric to measure success, imports are just as important in a global economy based on an international division of labour. Here in Europe we need imports to supply our companies with essential raw materials and intermediate inputs, to maintain our competitive and technological edge, helping us to provide high-quality jobs, develop and manufacture cutting-edge products, and satisfy consumer needs. The EU's single market is itself living proof of the fundamental benefits that trade and cooperation can bring.

Beyond the economic benefits, trade policy plays an important role in promoting and protecting the EU's values and standards, both at home and abroad. Speaking with one voice to represent a market of 450 million consumers, trade policy is an important vehicle for European leadership on the global stage. Promoting values (in relation to inter alia human rights, environment/climate, social and labour rights, sustainable development, and gender equality) has become an integral part of our commitment to a more sustainable and responsible trade policy.

Furthermore, our shared trade policy is today operating in an increasingly challenging environment, both externally and internally. Responding to these challenges will require shaping a trade policy that is more coherent and integrated with the EU's external and internal priorities.

Externally, trade is increasingly exposed to the volatility of international relations. Tensions among the major global economies, a rise of unilateralism and economic nationalism, stronger involvement of the state in the economy, the weaponisation of trade policy for economic or geopolitical objectives – all these factors have led to a weakening of global governance structures generally, and the multilateral rules-based order in particular.

Internally, there has been a decline in the belief that the benefits of globalisation and technological change are shared in an equitable manner and across value chains, economic sectors and society at large. Furthermore, EU citizens are increasingly supportive of a stronger climate change and sustainability agenda. Trade policy must be proactive in promoting international environmental, social and good governance standards in partner countries, as well as ensuring that our own EU values and standards are not undermined through trade. Trade policy must contribute to addressing the generational challenges – the green and digital transition – as set out in the Commission's political priorities<sup>3</sup>.

The Covid-19 crisis has further exacerbated these challenges. The Commission's 2020 Spring Economic Forecast projects that the pandemic will cause the EU economy to contract by 7.4% in 2020, while global GDP will fall by 3.5% and global trade by between 10-16%. At the same time, the pandemic has exposed some of the challenges associated with a high degree of inter-connectedness. The crisis has also increased development challenges in developing countries. The EU's recovery plan<sup>4</sup> provides a roadmap for a more sustainable, resilient and fairer Europe for the next generation – and trade policy needs to adapt to support these objectives.

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<sup>2</sup> Already before the Covid-19 crisis, the financing gap to achieve the SDGs in developing countries is estimated to be US\$ 2.5 – 3 trillion per year (source: UNCTAD)

<sup>3</sup> [https://ec.europa.eu/commission/sites/beta-political/files/political-guidelines-next-commission\\_en.pdf](https://ec.europa.eu/commission/sites/beta-political/files/political-guidelines-next-commission_en.pdf)  
<https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1588580774040&uri=CELEX:52019DC0640>  
<https://ec.europa.eu/digital-single-market/en/content/european-digital-strategy>

<sup>4</sup> [https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe\\_en](https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe_en)

## II. Trade policy in the post-Covid 19 world

- ***Building more resilience – internal and external dimensions***

The Covid-19 crisis has brought a number of vulnerabilities to light, both globally and inside the EU, which need to be considered. Immediate concerns arose with regard to the supply of medical and protective equipment: the crisis exposed the risks of being too dependent on one or a limited number of suppliers of critical goods and services in these sectors. This requires us to assess how we can improve our resilience.

As a consequence, the EU should pursue a **model of “Open Strategic Autonomy”**. This simply means strengthening the EU’s capacity to pursue its own interests independently and assertively, while continuing to work with partners around the world to deliver global solutions to global challenges. It is as unlikely that the EU would be self-sufficient in producing certain complex critical health products, as it is impossible to tackle global climate and environmental challenges on our own.

We want to continue reaping the benefits of international rules-based trade and exerting leadership in the international sphere, while having the right tools in place to protect ourselves from unfair practices. We want to strike the right balance between a Europe that is “open for business” and a Europe that protects its people, companies and standards. In order to stay competitive, EU companies will still need to access foreign markets through trade and investment. Increasing resilience means understanding our dependencies and reducing vulnerabilities through the right policy mix.

This reflects the objective of building “[A stronger Europe in the world](#)”. As set out by President von der Leyen in her political guidelines, we should strengthen Europe’s role as a global leader and standard setter through a strong, open and fair trade agenda in the wider context of the Union’s external action.

In broad terms, trade policy should aim to **stabilise our strategic engagement** with key trading partners in accordance with our values, interests and objectives, while helping to diversify our relationships and create alliances with like-minded countries.

The transatlantic relationship will be of particular importance, as it remains the central artery of the world economy and reflects a broader alliance of interests and fundamental values. However, in today’s world close attention will also have to be paid to developing our relations with other important trading partners. In this regard, it will be important to consider how to further develop our relationship with China, which is both a key partner for cooperation and a systemic rival<sup>5</sup>.

For **supply chains**, improving resilience will require a combination of measures, depending on a fact-based analysis of our vulnerabilities and the public policy objectives pursued. These can range from diversification of supply at country and company level, strategic reserves and stockpiling, as well as shortening of supply chains or increased domestic production. Increasing sustainability in supply chains can further contribute to increasing their resilience.

In order to **increase resilience**, the EU will have to act both internally and externally. On **the external side**, it will be important to develop international governance measures that support stability and predictability. Trade policy can play a leading role here, by for example supporting rules-based trade, building mutually beneficial partnerships and promoting multilateral, plurilateral and bilateral trade agreements with important spill-over effects in other policy areas, or by promoting the international role of the euro.

The benefits brought by EU investment should act as an incentive for our partners to improve their domestic business environment and ensure that EU companies are not discriminated against. The

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<sup>5</sup> <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>

EU's international investment policy, which forms part of its trade policy, will need to pursue this objective, in keeping with wider societal demands, notably for sustainable and responsible investment.

Trade policy's role on the **internal European side** includes supporting the competitiveness of our industries (through export opportunities and standard setting), helping to protect EU businesses and workers from the increasing panoply of unfair trading practices, and contributing to security, in particular through foreign direct investment (FDI) screening and export controls for dual-use items.

The Covid-19 crisis has clearly confirmed that, in order to remain an open area for investment, the EU needs to be able to control who invests in its territory and for which purpose, and to react when a foreign investment poses a threat to security and public order. The EU's FDI screening Regulation, coupled with efficient screening mechanisms in Member States, should protect businesses and citizens from risks linked to foreign investment, and the importance of this mechanism will likely increase in the years to come, as new threats and actors emerge.

**Question 1:** How can trade policy help to improve the EU's resilience and build a model of open strategic autonomy?

**Question 2:** What initiatives should the EU take – alone or with other trading partners - to support businesses, including SMEs, to assess risks as well as solidifying and diversifying supply chains?

- ***Supporting socio-economic recovery and growth***

The Covid-19 crisis is expected to lead to a **deep global recession** – with high levels of unemployment, rising public debts, lower private investment (at least -30% decrease in global FDI flows) - which could lead to a **larger role of the state in the management of the economy**.

As countries grapple with the aftermath of the crisis, there is a risk that their chosen policy mix will be more protectionist in nature, to the detriment of their own economy and consumers, and putting the global recovery at risk, and particularly exposing developing countries. There will be a particular challenge to ensure that crisis response and recovery measures that are warranted in the short term do not become the “new normal” in terms of permanent distortive state interventions and interference with the functioning of the global economy.

For trade and investment to thrive and to maximise our chances of economic recovery, a **stable, predictable and trusted framework for rules-based international economic governance** will be needed. Consequently, every effort must be made to reform the World Trade Organization (WTO) and re-establish it as an effective forum to develop new and appropriate trade rules, ensure their implementation and help to settle disputes.

In the coming years it will also be essential for the EU economy to benefit from growth opportunities abroad. Here the EU is already well placed thanks to its **network of trade agreements** with 76 countries around the world.

More should be done to help our exporters, particularly our SMEs, reap the full benefits of these agreements, by ensuring greater **market access and trade facilitation**, by improving **conditions for investment**, by **protecting intellectual property** rights including geographical indications, but also by focusing on **implementation and enforcement** issues and, more generally, by providing the stability and predictability that economic operators need. In this regard, strengthening the EU's export credit scheme could be considered. Reinforcing investment facilitation could support EU investors, including SMEs, in reaching foreign markets. Internally, the EU will need to ensure that it remains an attractive destination for investment.

The promotion of **international regulatory cooperation** has an important role to play in this regard. European regulations often have a global impact, for instance as regards data privacy or climate/environmental standards. The EU has also been very actively involved in the development of international standards and some of our trade agreements have a regulatory cooperation component. The EU will play a key role in the development of regulations and standards for new and green technologies – these are key for future sustainable competitiveness and growth.

A particular focus should be put on the EU's closest partners in its **neighbouring region and Africa**. On top of their geographic and geopolitical importance, these countries offer important growth and production markets as well as a key source for imports of goods and services and value chain integration. It is therefore mutually beneficial for both the EU and these partners to further strengthen our trade and investment relationships, including at multilateral level.

**Question 3:** How should the multilateral trade framework (WTO) be strengthened to ensure stability, predictability and a rules-based environment for fair and sustainable trade and investment?

**Question 4:** How can we use our broad network of existing FTAs or new FTAs to improve market access for EU exporters and investors, and promote international regulatory cooperation – particularly in relation to digital and green technologies and standards in order to maximise their potential?

**Question 5:** With which partners and regions should the EU prioritise its engagement? In particular, how can we strengthen our trade and investment relationships with the neighbouring countries and Africa to our mutual benefit?

**Question 6:** How can trade policy support the European renewed industrial policy?

- **Supporting SMEs**

Small and medium-sized enterprises (SMEs) are the **backbone of the European economy**, providing millions of jobs and working at the forefront of innovation. Exporting for SMEs means first and foremost selling their goods and services to other EU countries. However, by using the EU's Single Market to gain the necessary scale and experience to export, many SMEs then take the next step of going beyond the EU's borders. The number of SMEs exporting goods and services outside the EU has thus grown steadily over time. In 2017 (the latest available figures), more than 85% of all EU27 exporting companies were SMEs. It is estimated that exporting SMEs support around 13.4 million jobs in Europe<sup>6</sup>. SMEs also account for around 40% of all EU services exports.

SMEs benefit from the overall direction of EU trade policy as they are particularly **reliant on a stable and predictable business environment**, and they stand to gain from increased access to growing markets through our trade and investment agreements.

However, SMEs tend to face **higher costs for participating in international trade**, mainly due to the difficulties in accessing information on potential suppliers and business partners in third countries, as well as difficulties accessing finance. The EU therefore has put in place specific tools and measures to support them in doing business abroad, notably the inclusion of SME chapters in recent FTAs, the creation of SME Contact points, the Enterprise Europe Network<sup>7</sup>, an Intellectual Property Rights (IPR) SME Helpdesk, and a Trade Defence Helpdesk for SMEs. The Commission has also organised various

<sup>6</sup> The role of SMEs in extra-EU exports: Key performance indicators, Chief Economist Note, 15 June 2020, [https://trade.ec.europa.eu/doclib/docs/2020/june/tradoc\\_158778.pdf](https://trade.ec.europa.eu/doclib/docs/2020/june/tradoc_158778.pdf)

<sup>7</sup> The world's largest support network for SMEs with international ambitions, <https://een.ec.europa.eu/>

Market Access Days in Member States to reach out to SMEs, aiming to help them overcome any barriers they might face when exporting to third countries. Moreover, various broader Commission initiatives aim at supporting the internationalisation of SMEs<sup>8</sup>.

However, there certainly remains plenty of **untapped potential to support the trade and investment activities of European SMEs**, especially within the EU's increasing number of trade and investment agreements. Many SMEs are unaware of these opportunities including for public procurement, or tend to think that they only benefit bigger companies. In addition, SMEs have been most severely hit by the disruption of supply chains resulting from the COVID-19 crisis as well as from the fall in global demand. While access to finance will be essential, trade policy can also help to support their recovery by creating new opportunities.

**Question 7:** What more can be done to help SMEs benefit from the opportunities of international trade and investment? Where do they have specific needs or particular challenges that could be addressed by trade and investment policy measures and support?

- ***Supporting the green transition and making trade more sustainable and responsible***

The Covid-19 pandemic has not stopped **climate change, biodiversity loss or unsustainable levels of resource use**. On the contrary, addressing them remains a matter of priority. At the same time, there is a real risk that the focus on global economic recovery will neglect these issues.

The EU is a **global leader on climate action and sustainability**, and the European Green Deal as Europe's growth strategy should act as its roadmap within the global recovery effort, supporting the transition to a climate-neutral and more sustainable economy. The Joint Communication on the Global EU response to COVID-19<sup>9</sup> underlined the importance of sustainability, and the respect of labour rights and corporate responsibility throughout value chains. Promoting decent work<sup>10</sup> and improving working conditions at home and abroad remains a priority for the EU. In addition, the Commission is fully committed to the UN SDGs and is increasing efforts to integrate them into all its policies. The particular impact of the crisis on developing countries will require particular attention.

**Trade policy has an important role to play** in this work<sup>11</sup>. Efforts to promote sustainable development through trade policy have already increased significantly in recent years, as reflected in the Trade and Sustainable Development 15 action points plan<sup>12</sup>, notably through legally binding commitments to ratify and effectively implement international environmental conventions, in particular the Paris Agreement and the Convention on Biological Diversity (CBD) as well as international labour standards. Enforcement and implementation efforts have been significantly increased, including through the launch of dispute settlement proceedings, and the creation of the Chief Trade Enforcement Officer will support this further.

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<sup>8</sup> [https://ec.europa.eu/growth/smes/access-to-markets/internationalisation\\_en](https://ec.europa.eu/growth/smes/access-to-markets/internationalisation_en)

<sup>9</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1587137884705&uri=CELEX%3A52020JC0011>

<sup>10</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=LEGISSUM%3Aem0023>

<sup>11</sup> *The European Green Deal*, [https://ec.europa.eu/info/sites/info/files/european-green-deal-communication\\_en.pdf](https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf)

*The EU Biodiversity Strategy for 2030 Bringing nature back into our lives*, <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1590574123338&uri=CELEX:52020DC0380>

*A Farm to Fork Strategy for a fair, healthy and environmentally-friendly food system* <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0381>

<sup>12</sup> [https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc\\_156618.pdf](https://trade.ec.europa.eu/doclib/docs/2018/february/tradoc_156618.pdf)

EU Trade policy can help to drive change both within our single market and around the world, notably by using its tools (multilateral, bilateral or unilateral) to **foster a sustainable approach to trade and investment and to contribute to development**. This ranges from facilitating green trade and investment to supporting the implementation of international standards; and to engaging our trading partners on the need to address joint challenges, be it climate change or the environment more broadly, sustainable fisheries or sustainable agricultural practices, human and labour rights, or gender equality issues.

The Commission's intention to make respect of the Paris Agreement an essential element for all future comprehensive trade agreements, to establish a Carbon Border Adjustment mechanism to reduce the risk of carbon leakage should differences in climate ambition levels around the world persist, and a zero-tolerance approach to child labour are all reflections of the Commission's commitment to making trade more sustainable and responsible.

In addition, the **Covid-19 crisis has given further traction to discussions on promoting sustainability, responsible business conduct and transparency in supply chains**, notably through due diligence schemes as a tool to strengthen resilience<sup>13</sup>.

As part of our trade policy review, we should reflect on the most effective ways to harness trade policy to induce societal change within the EU and in our partner countries.

**Question 8:** How can trade policy facilitate the transition to a greener, fairer and more responsible economy at home and abroad? How can trade policy further promote the UN Sustainable Development Goals (SDGs)? How should implementation and enforcement support these objectives?

**Question 9:** How can trade policy help to foster more responsible business conduct? What role should trade policy play in promoting transparent, responsible and sustainable supply chains?

- ***Supporting the digital transition and technological development***

**The Covid-19 crisis has accelerated the digital revolution** – e-commerce, e-learning, teleworking, and e-services have become staple elements of our society. While we may go back to previous practices in certain areas, many others will remain for good.

The crisis has therefore **highlighted the importance of digital trade**, and its role in facilitating global value chains and developing innovative products and services, while reaffirming the need for an effective data privacy framework. These developments have prompted calls to accelerate the setting of international standards for e-commerce, including on data flows, notably via the WTO e-Commerce Joint Statement Initiative. In addition to provisions on data flows in trade agreements, the instruments provided by the EU's General Data Protection Regulation (GDPR) for international data transfers facilitate safe data flows ensuring a high level of data protection.

In addition, new technologies and changes in business models- notably in the areas of artificial intelligence, blockchain and 3D printing – are affecting both what we trade and how we trade.

At the same time, we see the **strengthening of assertive industrial policies by third countries**, particularly in high-tech sectors, usually through massive state support. This trend started pre-pandemic and will pose increasingly significant risks of trade distortions for EU companies.

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<sup>13</sup> <https://op.europa.eu/en/publication-detail/-/publication/8ba0a8fd-4c83-11ea-b8b7-01aa75ed71a1/language-en/format-PDF>

In light of recent trends, we must examine how EU trade policy can support the digital transition and help secure the EU's position in the digital sphere in the long-term.

**Question 10:** How can digital trade rules benefit EU businesses, including SMEs? How could the digital transition, within the EU but also in developing country trade partners, be supported by trade policy, in particular when it comes to key digital technologies and major developments (e.g. block chain, artificial intelligence, big data flows)?

**Question 11:** What are the biggest barriers and opportunities for European businesses engaging in digital trade in third countries or for consumers when engaging in e-commerce? How important are the international transfers of data for EU business activity?

- ***Ensuring fairness and a level playing field***

A commitment to openness remains at the heart of EU plans for future growth, prosperity and competitiveness. However, this commitment must go hand in hand with efforts to **ensure that our openness is not abused by unfair, hostile or uncompetitive trade practices**. Tax good governance also has a role to play in ensuring the level playing field and should accompany trade and investment instruments.

Prior to the crisis, this openness was increasingly being exploited by other large players, notably through industrial policies featuring massive state intervention, and there are concerns that the post-Covid-19 environment will see a ramping up of such abusive practices. Recent times have also seen a return to the use of coercive actions by some trading partners. Further thought will need to be given to how the EU responds to these coercive actions, which are intended to force the EU or its Member States to act, or refrain from acting, in particular ways.

The EU's preferred approach to dealing with such practices is to **level up the playing field by agreeing on clear rules with our partners**, for example through new rules on industrial subsidies in the WTO or in our regional and bilateral trade agreements.

However, this is not always possible and such commitments are not always respected by our partners. In such cases, it becomes **important to stand up for our rights more assertively**, using existing trade defence or dispute settlement tools – while creating new tools where necessary, such as upgrading the Enforcement Regulation, and protecting and upgrading dispute settlement mechanisms in the WTO and in bilateral trade deals.

The launch of the International Procurement Instrument, or the Commission's work on addressing the distortive effects of foreign subsidies<sup>14</sup> in the internal market, are further cases in point. The appointment of a Chief Trade Enforcement Officer underlines the increasing focus on proper implementation of the commitments made by our trading partners in bilateral and multilateral agreements, be it on market access or sustainable development.

**Question 12:** In addition to existing instruments, such as trade defence, how should the EU address coercive, distortive and unfair trading practices by third countries? Should existing instruments be further improved or additional instruments be considered?

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<sup>14</sup> White Paper on levelling the playing field as regards Foreign Subsidies to be published on 17 June

- **General question**

**Question 13:** What other important topics not covered by the questions above should the Trade Policy Review address?

### **III. Consultation process**

The trade policy review process will be based on broad consultations with stakeholders, including through public debates undertaken across the EU Member States and through written submissions.

Stakeholders are invited to provide their responses to the questions set out above by **15 September 2020 to the functional mailbox: [trade-policy-review-2020@ec.europa.eu](mailto:trade-policy-review-2020@ec.europa.eu)**.

*This consultation note will be available in July in all EU official languages.*

*Privacy statement: <https://trade.ec.europa.eu/doclib/html/158781.htm>*