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“EU’s trade agenda and emerging global trends”

EPC Conference Europe’s response to economic crises and transitions

“Taking stock of the von der Leyen Commission – How has it faced economic crises and transitions?”

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My intention is to add to the reflection on the competitiveness of the European economy the role of trade policy. Since 2019, when the European Commission had to react on an ad hoc basis to multiple crises related to pandemic, war, energy crisis it has managed to embrace it into in the strategic mindset. Its approach clearly demonstrated that to promote EU competitiveness a stronger strategic policy orientation is fundamental. From the beginning of its term, the Commission saw existential risks and accepted what Marco Buti called low political discount rate. In its ad hoc actions there was a long-term perspective. I would also say in reaction to what Malte Lohan alluded to that in the tsunami of legislation there was a long-term direction of change.

I would like to mention, in particular, the importance of its commitment to free trade, openness and global rule-based order, caring about the links between internal and external dimensions of European policies, responding with new trade agenda to the emerging global trends, adding an assertiveness agenda to the trade policy. It is also worth mentioning that this Commission showed openness to the idea of looking with more open eyes on the way we regulate as a non-unified jurisdiction, living space for the European Parliament to push away from the prescriptive legislation and toward principle based one. There was still too much crisis narrative about Europe. This seems to be a part of the European DNA and those who flourish doing it are indeed a problem. The Commission did not manage to overcome member states’ power grabs reflected in domination of national envelopes in all major sources of European funding. As a result, the momentum to move toward European public good concept was lost.

For issues this panel talks about the openness of European economy matters strongly. The EU economy is the most open among those that matter globally, and, again in reaction to what Malte said about European industry competitiveness and labor costs, I would like to underline that the EU has been over those years behind us the largest world exporter of manufacturing goods. These were successful years regarding the EU position in the world trade. The Commission has also exploited the engagement in negotiating trade agreements to create closer links with other countries.

There were many challenging moments in the global environment, with important trade partners walking away from the world rule-based order. I am not thinking here only about non-market economies, those on which the EU imposed trade related sanctions but also close partners, like US, with whom EU has actually rebuilt relations after Trump's dysfunctional period.

There are consequences of the effort of the Commission to use trade as a platform for cooperation. I have in mind the overstretching of trade policy toward other goals, sometimes leading to raised eyebrows on how much trade there still is in our trade agreements. A major move has been made toward combining the trade openness with assertive trade agenda, with many supporting defensive tools allowing to enforce our rights linked to the implementation of trade agreements.

For the first time the economic security agenda with instruments like the Anti-Coercion Instrument (ACI) has been introduced to the trade defense toolkit, in reaction to expanding weaponisation of economic instruments in the global economy. The security approach actually has not followed the US one, it is risk based, starting with assessing risks and only then looking at how to cope with it. We are moving toward economic security agenda in a very European way, focusing first on building a framework for risk assessment.

The defensive toolkit is deeply submerged in national fragmentation logic. There are efforts to build a basis for European approach. Not surprisingly this is a major gap in the area of investment screening. The Commission is not allowed to look at intra-EU operations, even if a partner company in another member state is controlled by a third country firm.

It should be up to the next Commission to move toward a more European approach in assertiveness measures. An unfinished business here is the screening of outbound investments, which have impact on technology. There is clearly no support for this tool from the Council and some businesses. Consultation on the basis of White Paper continues.

Stakes are high, it is about high tech, competitiveness and security. US has been doing it already for a while on the basis of the Executive Order signed by the President.

This Commission's competitiveness-based approach finally found its way toward structural linking of trade and industrial policy. But reaction to IRA, based on subsidies targeted toward competitiveness and innovation is seen as undermining the integrity of single market, which is the main European asset on which to build the competitiveness of our economy.

IRA has rebooted an industrial subsidy era with the risk of all those subsidized goods navigating toward the world market in the time of weakened global rule-based order. In the EU we had a discussion on how it impacts single market due to a very different fiscal space in different Member States. Unfortunately, IRA and the EU state subsidies-based response has led to a situation where with (of course rule-based) relaxation of state subsidies rules we managed to maintain our comparative advantage vis-à-vis US but a higher cost.

I believe that the next Commission should put the trade policy on the top of its economic agenda. We have instruments to promote openness to the world as a source of growth and competitiveness while strengthening our global capacity to shape global rule-based order and facilitating building alliances with like-minded economic partners.

For the new Commission there is a need to reflect, maybe in cooperation with the business community, on long-term vision of our comparative advantages as the EU economy. This is a joint challenge for many interconnected European policies, linked to the need of continuous adjustment of business model, away from high dependencies and toward clean technology and sustainability. The big challenge is related to the rationale behind the shift away in the investment policy from efficiency-based investment towards security and resilience-based investment decisions. How

long will it take to develop efficiency-based resilience? How far can we go with politicisation of supply chains, taking into account still high China dependency on critical materials?

A big issue for the future Commission is the reform of the WTO. We see today that subsidy rules of WTO do not prevent unlimited subsidising of industry and subsidy race to the bottom. National treatment, national content and MFN clause must be protected and respected. We should spare no effort to make those clauses survive possible new Trump era. Dispute settlement issue remains to be addressed. Ahead of MC13 I can only hope that we will manage to ensure a strategic direction for MC13.

We tend to see half of our trade only as based on WTO rules, but the other half covered by FTAs is also WTO based. So, yes, WTO is fundamentally important. Only Russia is off. The next Commission will also need to review current approach to the implementation of sanctions. The EU continues to suffer from lack of effective enforcement of sanctions in the EU member states themselves to eliminate the option that part of our exports ends up in Russia.

A big challenge today is the possible Trump comeback. We have invested a lot in stabilizing our relations. There is still, however, the economic challenge of the IRA and Critical Materials Agreement of huge political importance.

Also, the real entry into effect of CBAM is to take place in 2026. We can assume that in the meantime, CBAM approach might find its way through in some third countries where the interest in developing their own CBAM is growing. An important example here can be the case of the UK.

What is left to the next Commission, are also some issues, which can be seen as unfinished business. It will need to work on a successful implementation and ratification of trade agreements. It is in the hands of member states but reduces the credibility of the EU in the area of trade policy. A lot remains to be done regarding conformity assessment and mutual recognition agreements. There is huge potential there to reduce the costs for small and medium size companies. Further efforts also need to be made to abolish remaining trade barriers. In the economies with whom the EU does not have FTAs there is still potential to reduce the costs of trade through tariff reduction. This is the case of US.

So, a lot of issues related to the link between internal and external policies already recognized will hopefully be taken up by the next Commission. In particular, the link between Single Market, competitiveness and openness.