

The EU's New Trade Strategy

On 18 February, the European Commission presented its [trade policy review](#), its [position](#) on the World Trade Organization (WTO) reform and its strategy on strengthening [rules-based multilateralism](#). The new trade policy presents the Commission's vision on EU trade policy for the rest of its mandate: it aims to set the course for an open, sustainable and assertive trade policy that will increase trade opportunities while supporting EU's strategic autonomy. The EU's standards-setting power in international trade is emphasised as an important tool to assert the bloc's economic power on the global stage.

Trade policy premises

The EU is a top global actor both in terms of imports and exports, and direct investments. Jobs in the EU are more dependent on exports than in the other trading blocs. Likewise, the EU's economy is critically dependent on imports of raw materials and other inputs. Therefore, economic self-interest continues to be a crucial driver for promoting a thriving economic relationship with the rest of the world.

Yet, there are important shifts in the new trade policy. Traditionally, the EU's trade policy strategies place the main emphasis on promoting trade opportunities for European firms by removing trade barriers such as tariffs and quotas and guaranteeing fair competition on its export markets. Alongside these aims, the EU has promoted its other strategic objectives, such as human rights, social and safety standards, respect for the environment and sustainable development. However, these aspects have traditionally played a secondary role. The new strategy reinforces the importance of the EU's other policy objectives and describes the new role of EU trade policy as the main instrument in supporting the "EU's open strategic autonomy".

Geographical focus

The US continues to be the EU's greatest trading and investment partner even though China temporarily took first place in 2020 because of COVID-19-related trade patterns shifts. In its trade strategy, the Commission gives priority to strengthening its partnership with the US, which is deeply rooted in common interests and values.

The main priority for the EU is to engage with the new US administration on a substantial reform of the WTO. The Commission also hopes to remove several bilateral "trade irritants" introduced by the Trump Administration, like the steel and aluminium tariffs, and the ones linked to the Boeing/Airbus dispute. On the latter, the EU hopes to agree with the new US Trade Representative (once appointed) on a temporary suspension of tariffs, which would allow a long-term solution on subsidies for aeroplane construction to be found. There is no ambition, for the moment, on launching major bilateral trade initiatives like the aborted Transatlantic Trade and Investment Partnership.

The trade and investment relationship with China is described as "important and challenging". The EU will continue to engage with China, as suggested by the recent political deal on the Comprehensive Agreement on Investments (CAI). The ratification of the CAI, however, depends on the effective implementation of market access, level playing field commitments, and sustainable development clauses, notably regarding labour conditions.

Once the CAI is formally approved by the member states and European Parliament (likely in the first semester of 2022), both sides will try to conclude an additional investment protection agreement to protect companies from abuses from the state (likely in 2023). China has informally launched the idea of an EU-China Free Trade Agreement, but there is no appetite from the EU side to launch such an endeavour at the present stage.

The new trade strategy is cautious regarding taking initiatives on new free trade (FTA) or investment agreements. The focus will be on finalising the outstanding talks, such as the FTAs with MERCOSUR, Australia and New Zealand. The EU will only conclude the deal with the Latin American countries, in particular Brazil, if they make additional efforts to halt the deforestation of the Amazon. The EU is optimistic that ongoing negotiations on this topic will be successful. The main outstanding issues in the FTAs with Australia and New Zealand is agriculture and sustainability (especially for Australia which is a big coal exporter).

Finally, reinforced trade relationships are foreseen with neighbouring countries (Western Balkans and Eastern Europe) and with Africa. On Africa, the long-term ambition is a continent-to-continent trade agreement based on a successful implementation of the African Continental Free Trade Area.

Promoting the EU's strategic priorities

Green and digital agendas


While setting out the EU's ambitions on extending the geographical scope of its bilateral agreements, the new strategy gives higher importance to promoting its other strategic goals, in particular, climate change and the digital agenda. The EU wants to focus more on profiting from existing agreements and increasing its capacity to ensure that trade partners fulfil their commitments, including by the use of sanctions if necessary. The headline has become the "EU's open strategic autonomy".

An important priority for the EU's trade policy will be to support the green agenda. The EU expects to be able to profit from the competitive position of its industry in the green sector to expand exports and create investment opportunities abroad. However, it is equally important to create a multilateral trade environment that supports the fight against climate change. The EU intends to engage with like-minded countries to pursue a strong environmental agenda in the WTO including pushing for the liberalisation of climate-friendly goods and services and the greening of aid-for-trade.

In addition, the EU intends to use its existing bilateral agreements to engage with partners on climate change and insists on the inclusion of an ambitious sustainability chapter focussing on the respect of the Paris Agreement in all future trade and investment agreements. The Commission's newly appointed Trade Enforcement Officer will pay particular attention to overseeing the enforcement of sustainable development commitments in existing agreements.

The EU also intends to take autonomous measures and, in particular, to introduce a Carbon Border Adjustment Mechanism (CBAM). The Commission will present a legal proposal in June, that is expected to be linked with the EU Emission Trading Scheme (ETS).

The import levy will vary according to the carbon price established through the ETS. Imports from countries that have similar carbon pricing schemes as the EU will be exempted from the duties. In addition to countries where such mechanisms already exist today, the Commission hopes that the US will join the group and that China will align its scheme on the EU ETS. The EU intends to introduce the CBAM gradually, starting with a handful of products.

The image shows the European Union flag, a blue field with twelve gold stars arranged in a circle, waving on a flagpole. In the background, a modern building with a curved facade and large windows is visible, along with some greenery.

Besides the green agenda, the digital economy likewise figures prominently in the EU's trade policy. The EU will seek a rapid conclusion of an ambitious WTO agreement on digital trade, including rules on data flows in line with the EU's data protection framework. The Commission intends to continue to lead the way in digital standard-setting and regulatory approaches. Close cooperation with like-minded partners will be essential, and the EU has already suggested to the US to set up a Trade and Technology Council.

Ensuring a level playing field

The appointment of the Chief Trade Enforcement Officer was the first step towards ensuring a level playing field through the implementation and enforcement of existing trade agreements. The Commission intends to take further steps, including:

- Further strengthening the EU's tools to confront new challenges and protect EU companies and citizens from unfair trading practices, including the protection against coercive actions such as extra-territorial application of sanction measures (e.g. US sanctions against Iran).
- Proposing a legal instrument to address distortions caused by foreign subsidies on the EU's internal market.
- Exploring options for an EU strategy for export credits.

The revival of the WTO

The Commission suggests that the EU takes the lead (in close cooperation with like-minded countries) in overcoming the WTO's present crisis and recreating its essential role in promoting international trade and governance. The annex to the Commission's trade strategy sets out in detail an agenda for the WTO reform. The essential point is to get the reform process rolling.

The new Biden Administration in the US and the appointment of a new and determined Director-General of the WTO, Ngozi Okonjo-Iweala, suggests that there may be a window of opportunity for the reform. Okonjo-Iweala is planning to elaborate a detailed reform proposal for approval at a planned WTO Summit in Geneva in December 2021. However, it will be essential that WTO members reach an agreement, during the first year in office of the new US administration, that would fully restore the WTO's dispute settlement system with a reformed Appellate Body. It would also be important to restore a sense of common purpose by finally concluding several agreements that have been blocked in the system including on trade and health and the protection of the environment.