

EUROCHAMBRES on the New Trade Strategy

EUROCHAMBRES has published a comprehensive Position Paper on the [priorities for the new Commission](#) on how to achieve a stronger Europe in the world, and issued its recommendations on what the external policy measures of the EU should be as a result of COVID 19 in order to boost our recovery in a [letter](#) to Commissioners Hogan, Breton, Gentiloni and Urpilainen in April.

With this in mind, EUROCHAMBRES would like to offer some additional impulses for the European Commission's new Trade Strategy which is being conducted under the goal of an '*open strategic autonomy*'.

For EUROCHAMBRES it remains essential, in order to achieve a swift economic recovery, that Europe maintains and builds on the strong EU trade policy that has characterized Europe's economic relationships on the global stage for decades. Gradually opening international markets for European goods, services, investment and public procurement, reducing and eliminating unjustified trade barriers in third countries, as well as strengthening and improving global trade rules, is of enormous importance to European business.

The EU must ensure also ensure ever greater coherence among trade and the EU's wider foreign policy goals, its competition policy, its development objectives, its industrial policy, its SME strategy as well as its sustainability objectives through a more effective and targeted **European Economic Diplomacy**.

Equally, having the world's most competitive **SME's**, it remains critical for the EU to prioritize SMEs in the future Trade policy and show leadership in pursuing an inclusive and ambitious SME agenda in its bilateral agreements, at the WTO by building on the MSME declaration of MC11 in Buenos Aires, and importantly by making sure the benefits of trade reach SMEs through a more coherent and efficient implementation agenda.

At the same time, the EU must ensure a more rigorous **enforcement** of all trade disciplines going forward, be they at bilateral, plurilateral or multilateral level. Cases where some trading partners don't comply with their obligations over years such as in the case of the export ban on wood with Ukraine, or otherwise systematically discriminate against EU companies contrary to agreed rules as in the southern neighborhood, should no longer be left without consequences. Especially for our SME's, it is critical that the EU ensures a level playing field to avoid that our businesses are undercut by unfair trading practices. A level playing field is thus rightly a central element for the future economic relation with the United Kingdom, but must also be addressed much more systematically through a whole of government approach, including at the WTO, vis-à-vis third country partners that engage in injurious subsidization of their industries, especially those emanating from **state capitalist systems**.

In a post COVID world, it is therefore more important than ever that Europe takes a leadership role in shaping Globalization in a way that reflects European priorities. The COVID crisis continues to pose enormous challenges for our globally highly interconnected European economies and as a global pandemic, it will require global solutions to fully tackle the problem. The temptation to become more protectionist during a pandemic is misplaced, and the EU we must remain very vigilant so that third countries don't use the pretext of the crisis for more protectionism. As Chambers we are witnessing a worrying increase in protectionism that is affecting ever more crucial areas of the European economic fabric, that if left unchecked will weigh heavily on our future competitive position

on the world stage. The EU must therefore build the right leverage and have the right tools to effectively and efficiently challenge malign behavior.

As we have consistently advocated, ideally also a level playing field is best agreed globally among our partners at the **World Trade Organization (WTO)**. Therefore, the EU must continue to prioritize to strengthen its rules, update and re-invigorate them, in order for global rules to reflect contemporary business practices and current challenges. This goes primarily for observing existing and stricter future rules against unfair industrial subsidies, state trading, theft of intellectual property as well as strict non-discrimination, more transparency, more disciplined notification practices as well as preventing one-sided blockades.

To encourage higher compliance with existing obligations, EUROCHAMBRES has suggested establishing annual public reports that could be elaborated by the WTO secretariat or another independent entity, mirroring the “World Banks Doing Business Report”, where WTO Members can be annually listed, ranked and tracked regarding their performance in complying with WTO commitments.

For the future negotiation agenda at the WTO, EUROCHAMBRES has been a leading voice for many years in calling for an ambitious SME agenda at the WTO, and expects the EU to make this a priority as part of its WTO reform agenda, as global trade rules must be more inclusive and more amenable to cater to the needs of SMEs. Equally, with an ever more digitized economy post COVID, a global agreement on e-commerce is of paramount importance, while duly respecting EU privacy laws. Liberalising trade in services must also feature much more prominently in the future WTO negotiation agenda, given its increasing importance for global trade and EU exports, as well as reducing tariffs on health products

Additionally, the following elements should be considered in the new EU Trade Strategy:

- **Open Strategic Autonomy** cannot be a codeword for European self-sufficiency, nor can it mean business as usual, which is why EUROCHAMBRES pleads for the establishment of a **Strategic Supply Chain Diversification Fund** to complement the EU Recovery package. The devastating economic impacts of the global pandemic has clearly exposed vulnerabilities in the EU's strategic supply chain security through overdependencies on single suppliers. Increasing European resilience and diversification must therefore be a cornerstone of the EU's future strategic actions. It must remain clear however, that all business decisions must remain exclusively driven by business and business only. More can and should be done by Europe though, to actively support those enterprises who want to diversify their supply chains, but are financially not able to do so following the devastating impact of the COVID-crisis. It is in this context, that EUROCHAMBRES advocates for the EU Recovery Package to be complemented by a Strategic Supply Chain Diversification Fund to financially assist companies wishing to reduce risky over dependencies by actively supporting their efforts to diversify their supply chains. Together with an ambitious trade agenda the strategic supply chain diversification fund should be a prime pillar to achieve a more diversified and resilient European economy post COVID.
- **Trade Agenda:** Achieving a more resilient and diversified European economy, must also mean for the EU to pursue a rapid adoption and implementation of the agreements with Mexico and Mercosur, swiftly complete ongoing EU negotiations with Chile, Australia, New Zealand and Indonesia. A conclusion of an investment agreement with China that is able to rebalance the trade relationship is equally to be pursued within the agreed time frame. At the same time, a rapid resumption and conclusion of negotiations with India, the Philippines, Thailand and Malaysia, as well as with the GCC countries should also be envisaged. Additionally, and as announced in the Trade for All Strategy in 2015, the EC should swiftly prepare to start negotiations on an investment agreement with Taiwan. The possibility of a trade agreement with Taiwan should also be explored.

Moreover and as we have repeatedly stated, maintaining a positive agenda with the United States is of paramount importance to our business and further ambition should be injected into this economic relationship post COVID to deliver more for business on both sides.

- Maintaining a dynamic partnership with the Western Balkans is equally essential for the EU. The COVID-19 pandemic has brought to the forefront the high level of market integration and the inter-dependence between the EU and the Western Balkans economies, and the economic relationship should be further strengthened post COVID.
- With regards to the **United Kingdom**, EUROCHAMBRES calls on both parties to ensure swift and substantive progress towards an outcome that corresponds to the ambition business needs and which respects and delivers on commitments already agreed. An economically disorderly Brexit during a global pandemic should be a non-starter, however Chambers across Europe are continuing to prepare their companies -especially SMEs - for all scenario's, including a no deal scenario. Preparations to mitigate risks must therefore be upheld by the EU and Member States, including through the full availability of the Brexit Adjustment Reserve by the end of the transition period.
- **Focus EU Only:** So as to guarantee a swift, predictable and efficient ratification of EU trade agreements, the EU should concentrate on "EU-only" content in trade negotiations which will facilitate negotiating, adopting and implementing our trade agreements.
- In a post COVID world, the EU must focus on future-proof its trading rules to take account of the increasing **digitization of world trade**. Focus on market access in negotiations should thus lie on new technologies and future developments, including through a consistent integration of ambitious chapters on digital trade in our trade agreements. The cross-border flow of data streams must be guaranteed; Data and intellectual property of companies must be protected and standards and norms where possible, harmonized for digital trade. Strategically the EU should seek to strengthen its links with like-minded partners to foster ever deeper synergies and innovation flows, data and ideas. Trade policy must thereby continue to play a significant contribution in fostering high technology through the availability of technical components, systems and software, which form the basis for the development of key technologies at home. It is in that context that technological sovereignty in Europe should mean building and maintaining technical and scientific competence in the field of these key technologies, while taking into account innovative technologies from home and abroad. Digital or technological sovereignty must not be misused for any supposed economic independence, nor for striving for economic, technical or scientific self-sufficiency of individual branches of the economy, or to justify discrimination in the application of market access regulations or trade rules.
- The transition towards a more **sustainable global economy** is a priority for EUROCHAMBRES and COVID presents an opportunity to build back better and greener. European businesses are already world leaders in many green technologies and solutions – from renewable energy, clean tech to energy efficiency, and our businesses see many opportunities in the transition towards circular economies. European business produces these innovations under high environmental, labor and social standards, which is why the international adoption of European Standards entails a competitive advantage for our economy, particularly in the sustainability area. The EU should also use its trade agreements to actively incentivize our trading partners to raise their environmental and labour standards to internationally agreed norms, in particular the SDG's and the Paris Agreement.
- Compliance with these norms is very important and EUROCHAMBRES sees the new Chief Trade Enforcement Officer as having a key role towards improving the track record of partner countries in terms of compliance. However, sanctions in a trade and sustainable development chapter are not a viable option and risk adding uncertainty to trade at a time when business needs above all predictability.
- EUROCHAMBRES also urges negotiations on preferential market access for

environmentally friendly products and services, green products and services should be (re)started at the WTO, as well as exploring the phase out of inefficient subsidies for fossil fuels and actively promoting enterprises developing sustainable and climate-friendly value chains.

- In order to achieve a green transition in Europe, EUROCHAMBRES would also like to stress the importance of ensuring that the continued access of raw materials and intermediate products for EU production through our trade agreements.
- With regards to upcoming **due diligence** legislation, EUROCHAMBRES expresses caution with regards to imposing excessive supply chain liabilities, due diligence and reporting requirements on companies as it would lead to considerable uncertainty, red tape and liability risks, especially for SMEs who often only have limited influence and control over their suppliers compliance with local Standards. If due diligence is not designed properly, SME could also risk being placed at a competitive disadvantage vis-à-vis larger enterprises at a time of already increased market concentration. Moreover, the economic impact of related EU legislative files such as an updated NFI directive etc, should first be evaluated before additional economic burden is put on our companies at a time when businesses and SMEs in particular are battered by the impact of COVID 19.
- As we have been consistently advocating, the **implementation of trade agreements** must be a core priority for the EU in terms of its future Trade Strategy, in order to make sure that the benefits of trade reach our SMEs all across the Union. Ever since our concept paper: *“towards the **trade implementation action plans**”* we have advocated for the establishment of such a vehicle to accompany our trade agreements, that in our eyes will greatly increase the needed coherence of implementation within the EU, its effectiveness for our business and SMEs and the accountability of governments towards their business communities. We look to the new Chief Trade Enforcement Officer to work on such a “Team Europe” approach to implementation with all relevant actors, and help achieve a more systematic approach to implementation in line with the proposed above.

On the **Carbon Border Adjustment Mechanism (CBAM)**:

Fighting climate change is a global problem that requires global solutions, which is why EUROCHAMBRES urges the EU to continue to fight for global solutions to address this problem. Resorting to unilateral actions must be considered the last resort, if and when international solutions consistently fail to materialize.

However, it is clear that addressing climate concerns has become increasingly important in the context of international trade. European businesses, in particular energy-intensive ones, that are exposed to global competition face higher environmental compliance costs than many foreign competitors. This includes emission reduction regulation, energy efficiency and other standards as well as other measures that lead to direct or indirect carbon pricing. Foreign companies, whose governments do not put in place a comparatively ambitious climate regulation framework, do not face these costs, at least not at the same level. This creates an unlevel playing field and resulted in protection measures against carbon leakage by relocation of manufacturing.

In light of the above, EUROCHAMBRES recommends the following:

1. **Define clear objective**

The objective of the Carbon Border Adjustment Mechanism must be clear from the start. This will not only affect its design and the administrative effort necessary for implementation and enforcement but also its impact on the competitiveness of European businesses, and, even more critically, its compatibility with WTO rules. In EUROCHAMBRES’ point of view, the CBAM must first and foremost aim to safeguard the competitiveness of the European economy and provide effective protection against carbon leakage, which has a positive impact on the global fight against climate change. The

competitiveness of EU businesses exporting to third countries and competing abroad with foreign companies facing lower or no carbon cost must also be preserved.

2. Maintain existing carbon leakage protection provisions

Both the direct and indirect measures, free allocation of emissions allowances and compensation of indirect carbon costs respectively, aim first of all at maintaining the competitiveness of the European economy and in particular energy-intensive industries. Secondly, they aim at maintaining the effectiveness and integrity of the EU-wide climate and environment framework since the same manufacturing processes often result in higher emissions in third countries with less stringent regulation. As long as there are no comparable climate ambitions in other world regions, implemented by legislation, this instrument remains pivotal for the global competitiveness of European industries.

3. Start with selected sectors based on thorough impact assessment

Any CBAM should first be applied to selected sectors and may include the option to gradually include additional sectors. Before a possible introduction for a limited set of selected sectors, particularly exposed to international competition, a comprehensive impact assessment must be carried out for each sector individually with regard to possible legal, trade, economic and environment policy effects. Such an impact assessment must also provide an answer to the often complex interdependencies of the entire value chain of the sectors. The results of this impact assessment will determine whether and, if so, how the introduction of a CBAM is necessary, proportionate, expedient and practicable. The addition of any sectors to the CBAM should undergo the same procedure and be decided through the ordinary legislative procedure.

4. Ensure compatibility with WTO law, mitigate risks of retaliation and don't overburden SMEs

Compatibility with WTO is critical from the outset and a compliance of a mechanism with its rules raises a number of questions that must be respected in any design of a CBAM. This includes, for example, the extent to which the principle of non-discrimination against domestic and foreign companies is complied with. This implies that only real, effective differences in carbon pricing levels can be adjusted through a CBAM. The carbon content of imported products, therefore, needs to be determined precisely and be subject to independent verification.

It is worth recalling in line with what we stated above, that unilateral action by the EU must only be the last resort, if international solutions fail. As experience has shown, unilateralism, especially if it has major impacts on third countries tends not to remain unanswered, with unforeseen economic consequences for companies. It is critical therefore that the EU manages this process very carefully and transparently with its trading partners. Any opaque, disproportionate and uncoordinated process will increase the risk of retaliation at a time when all efforts should be concentrated on the European economic recovery post COVID. Lastly, any CBAM mechanism should be easy to administer and not place undue burden on SMEs.

5. Continue to enhance global climate diplomacy & develop alternative action

In order to effectively combat the negative impacts of climate change, international cooperation and coordination is ever more necessary. Yet, it is not foreseeable whether the introduction of a CBAM will actually promote international cooperation in this regard. EUROCHAMBRES recommends intensifying the efforts for a global carbon pricing mechanism and to strengthen trade in climate and environmental protection - e.g. through trade policy initiatives such as liberalization initiatives of environmentally friendly products and services, green products and services. In addition, the determination of CO₂-footprints across global supply chains poses many challenges and mustn't lead to the discrimination of trade partners. All these elements must be considered in an impact assessment.

6. Take into account alternative action

As stated, any change to the existing carbon leakage protection measures must be based on a detailed impact assessment. This analysis should also take into account potential alternatives to a CBAM. These include the expansion of free allocation and indirect cost compensation as well as the

abovementioned measures in strong coordination with global partners. It would be useful to be able to compare the economic, legal, trade related, and climate impact of scenarios based on various alternative before committing to one of the alternative solutions.

7. Protect the competitiveness of export-oriented and processing industries

European businesses active beyond the borders of the EU's internal market are facing fierce competition from companies producing with lower or no CO2 costs. Any reform of the EU's carbon leakage protection instruments must also aim at preserving their competitive stance. Protecting export-oriented industries might require, for instance, continued free allocation or granting rebates to EU exporters under a CBAM. Effects on the competitiveness of European companies processing goods falling under the CBAM should be considered, too, and alleviated, if necessary.

EUROCHAMBRES – The Association of European Chambers of Commerce and Industry represents over 20 million enterprises in Europe – 98% of which are SMEs – through 45 members and a European network of 1700 regional and local Chambers.

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