



**European Committee
of the Regions**

ECON-VII/010

143rd plenary session, 17 and 18 March 2021

OPINION

Trade Policy Review

THE EUROPEAN COMMITTEE OF THE REGIONS

- is disappointed that the European Commission's communication does not contain any solutions to mitigate the negative impact that trade agreements may have on certain agricultural sectors which are already under pressure or internally fragile; calls for reflection on the establishment of a support mechanism for the most heavily impacted sectors; in this regard, remains particularly concerned about the negative impact that the draft EU-Mercosur association agreement is doubtless capable of having on certain agricultural sectors;
- considers that it is important for local and regional authorities – the level closest to citizens – to continue to be fully involved and fully consulted by the Commission with regard to EU trade agreements; in this context, is concerned about the approach adopted by the Commission in the recent trade negotiations – in the wake of the judgment delivered by the Court of Justice of the European Union in the Singapore case (opinion 2/15 of May 2017) – with a view to avoiding "mixed" trade relations by only negotiating trade agreements in which the EU has exclusive competences;
- believes that trade policy needs to be thoroughly overhauled in order to ensure consistency with the European Green Deal commitments for sustainable and inclusive growth, meet the challenges of the digital transition, increase the competitiveness of EU industry, and contribute to the growth of employment in Europe and to enhancing the standard of living of all citizens; emphasises, that trade policy must enhance the resilience of the European Union and ensure it has the capacity to mitigate current and future systemic shocks, especially those arising from climate change, heightened geopolitical tensions and the risk of further pandemics and health crises;

Rapporteur: **Willy Borsus (BE/Renew Europe)**

Vice-President of Wallonia, Walloon Minister for Economic Affairs, Foreign Trade, Research and Innovation, the Digital Economy, Spatial Planning, Agriculture, IFAPME (Walloon institute for ongoing and freelance training and SMEs) and competence centres

Reference document

COM(2021) 66 final.

Opinion of the European Committee of the Regions – Trade policy review

I. POLICY RECOMMENDATIONS

THE EUROPEAN COMMITTEE OF THE REGIONS

General comments

1. Generally endorses the Commission Communication of 18 February on An Open, Sustainable and Assertive Trade Policy; takes note of the conclusions and recommendations set out in this communication, but notes that it also displays certain weaknesses that will need to be addressed;
2. believes that trade policy needs to be thoroughly overhauled in order to ensure consistency with the European Green Deal commitments for sustainable and inclusive growth, meet the challenges of the digital transition, increase the competitiveness of EU industry and contribute to the growth of employment in Europe and to enhancing the standard of living of all citizens; emphasises, finally, that trade policy must enhance the resilience of the European Union and ensure it has the capacity to mitigate current and future systemic shocks, especially those arising from climate change, heightened geopolitical tensions and the risk of further pandemics and health crises;
3. points to the central role played by trade in the EU economy and the millions of European jobs that depend on exports outside Europe. Before the COVID-19 crisis, 35 million European jobs depended on exports, and 16 million on foreign investment. In other words, one job in every seven depended on exports;
4. is concerned by the shockwave that the COVID-19 crisis has unleashed on the international markets and by the way it has worsened the pre-existing situation – which had already deteriorated, in particular due to the heightened geopolitical tensions. According to a recent analysis by DG TRADE, global trade is expected to fall by 10-16% in 2020; the EU-27 are forecast to experience a reduction of 9-15% in extra-EU exports, amounting to a reduction of some EUR 282 to 470 billion¹; notes with concern that the ILO predicts that in 2020, as a result of the COVID-19 pandemic, 12 million jobs will be lost in Europe alone;
5. notes that socio-economic difficulties are compounded by the increasingly widespread questioning by citizens of how the benefits of globalisation are distributed, at every stage of value chains, in all economic sectors and in society as a whole; considers in this regard that it is important for local and regional authorities – the level closest to citizens – to continue to be fully involved and fully consulted by the Commission with regard to EU trade agreements; in this context, is concerned about the approach adopted by the Commission in the recent trade negotiations – in the wake of the judgment delivered by the Court of Justice of the European Union in the Singapore case (opinion 2/15 of May 2017) – with a view to avoiding "mixed" trade relations by only negotiating trade agreements in which the EU has exclusive competences;

1 https://trade.ec.europa.eu/doclib/docs/2020/may/tradoc_158764.pdf

6. is convinced that only a sustainable trade model that respects EU values, the EU's core, non-negotiable legislative norms and the SDGs can contribute to the well-being and prosperity of all, both within the EU and elsewhere in the world;

Increasing consistency between trade policy and other EU sectoral policies as part of the recovery

7. considers that greater consistency must be ensured between trade policy and the EU's agricultural, industrial, digital, competition, tax, social, environmental, transport, climate, energy, development and cohesion policies, as well as with the fundamental rights of the EU; regrets that the Commission communication does not place sufficient emphasis on this need for consistency among the various EU sectoral policies;
8. stresses the fundamental commitment to the economic freedom of public authorities to provide, commission and finance services of general economic interest;
9. underlines the importance of protecting public services and critical infrastructure (public services of general interest) in trade agreements and therefore calls for them to be excluded – both comprehensively and with legal certainty – from the scope of all free trade and investment agreements, including all investment protection provisions, for example through a positive list approach to contractual market access provisions, most-favoured-nation treatment and non-discrimination on grounds of nationality;
10. believes that trade policy revision must go hand-in-hand with focused reforms of certain aspects of EU competition policy and a recast of European industrial and innovation policy, in order to support the EU's world-leading position in key areas; looks forward in this regard to the updated EU industrial policy strategy announced for April 2021;
11. stresses that the EU should strive for a global solution to the taxation of digital services, accompanied by appropriate governance and rules at global level; if an international solution cannot be found in the coming months – particularly at OECD level – the EU should consider acting alone;
12. supports the call for EU trade and economic agreements to include a chapter containing clauses on tax offences, money laundering and aggressive tax planning, as well as cooperation between tax authorities, in line with the WTO's rules and principles. The Commission should include such a chapter both in ongoing negotiations and when revising treaties that are already in force;
13. emphasises that where agricultural policy is concerned, having trade policy that does not ensure outside markets are held to the high European standards with regard to sustainability and food safety can severely undermine the internal market, and can endanger the agricultural sector particularly if it is already in difficulty, thereby threatening the EU's food supply, which is a key objective of the Common Agricultural Policy, and the management of European land, which depends on the sector's workers; considers that the revised trade policy should, together with agricultural policy, help maintain overall employment and safeguard farming as a way of life by guaranteeing a fair return. Trade policy regarding the agricultural sector should guarantee an

equal level playing field between the internal market and the external market, prioritising supply within the EU itself over products from external markets. At the same time internal rules governing the markets should stimulate diversification of our internal market to ensure competitiveness. However, this must not undermine efforts to strengthen fair trading relations with African countries;

14. is disappointed that the European Commission's communication does not contain any solutions to mitigate the negative impact that trade agreements may have on certain agricultural sectors which are already under pressure or internally fragile; calls for reflection on the establishment of a support mechanism for the most heavily impacted sectors; in this regard, remains particularly concerned about the negative impact that the draft EU-Mercosur association agreement is doubtless capable of having on certain agricultural sectors;
15. recalls the important role of cohesion policy in enhancing the competitiveness of the EU's regions by means of targeted investment tailored to the needs of any given territory – especially in remote and isolated regions where the development and modernisation of infrastructure are essential – in key sectors such as network infrastructure, connectivity, research and innovation, SMEs, IT services, environmental and climate action, high-quality employment and social inclusion;
16. considers that EU trade policy must not jeopardise the EU's development cooperation work in third countries, and calls for a balanced, fair free-trade approach to the more fragile economies;
17. supports the introduction by the Commission of a legal tool to remedy the distorting impact of foreign subsidies on the EU's internal market and stresses the importance of modernising and updating European competition rules;
18. urges the European Commission to demonstrate that an ambitious modernisation of the Energy Charter Treaty can be achieved in the short term, in such a way as to align it with the objectives of the Paris Climate Agreements and incorporate the EU's modernised approach to investment protection: otherwise the option of an orderly exit of the EU from this treaty should be explored;
19. urges the Commission to take all the necessary steps to ensure the swift and orderly termination of the remaining intra-EU Bilateral Investment Treaties;

Towards a model for open strategic autonomy

20. underlines how important it is that the EU remain an open economy and continue to promote free, fair, sustainable international trade that is rules-based and of benefit to all trade partners; to this end, supports the European Commission's efforts to reform the WTO. The aim must be to revitalise and strengthen the WTO, *inter alia* by modernising the way it works in key areas and filling gaps in its regulatory framework so that it can respond adequately to current trade policy challenges;
21. welcomes the model for open strategic autonomy proposed by the European Commission, which must result in an open, sustainable and solid trade policy that harnesses and protects our

economic advantages, guarantees access to key markets and raw materials and safeguards access to vital goods and services; at the same time warns against protectionist tendencies and underlines that Europe must remain a strategic global actor that respects international rules and is ready to enforce them too;

22. believes that this requires our value chains to be mapped, with the involvement of the relevant regional bodies, in order to identify and reduce areas of dependence in strategic sectors and boost the resilience of the most sensitive industrial ecosystems, in particular in remote and isolated regions such as the outermost regions, and specific areas such as health, defence, space, food, digitalisation and critical raw materials; will pay close attention to the outcome of the work currently being carried out by the Commission on listing areas of strategic dependence and the most sensitive industrial ecosystems;
23. emphasises that this may include diversifying production and supply chains, creating strategic stockpiles, fostering investment and production in Europe, exploring substitution solutions and promoting industrial cooperation between the Member States;
24. observes that the COVID-19 crisis has revealed the potential for creativity and innovation that exists in regional ecosystems and is spurred by new cooperative approaches with a view to meeting the supply challenges in areas such as medicines and medical products; considers that the EU should promote a stronger local economy for certain industries, and innovative European value chains, based on complementarity between ecosystems, specifically by means of measures to support cooperation between players; considers that cluster policies and cooperation between clusters are valuable levers to create critical mass and meet the needs of SMEs; considers that creating a critical mass of demand for certain strategic products and making it visible on the internal market can contribute to the reshoring of certain areas of production and the development of competitive production on EU territory, in particular by accelerating the marketing of innovative solutions;
25. points to the need to frame specific action plans for each of the strategic value chains identified within the EU for implementing IPCEIs, since these are an important tool for the green and digital transitions and for strengthening the Union's technological leadership, especially in relation to batteries, microelectronics and hydrogen, for example;

A sustainable trade model – the only model for contributing to the well-being and prosperity of all, both within and outside the EU

26. notes that the communication refers to the review of the EU's 15-point action plan on the effective implementation and enforcement of Trade and Sustainable Development (TSD) Chapters in trade agreements; is pleased that the review will cover all relevant aspects of TSD implementation and enforcement, including the scope of commitments, monitoring mechanisms, the possibility of sanctions for non-compliance and the essential elements clause, as well as the institutional set-up and resources required; regrets that this review and the communication were not coordinated, but is pleased that the end date for the review has been brought forward to the end of 2021; trusts that this review will be as transparent and inclusive as possible;

27. considers in this regard that European environmental, climate protection and social standards, such as those set out in the European Green Deal and the European Pillar of Social Rights, should be built into every trade agreement negotiated by the EU and should form the minimum set of requirements to which the parties commit; considers that this will help European SMEs and industry who comply with these standards to flourish, while having a ripple effect on their trading counterparts;
28. believes that the EU must be more assertive in terms of respecting and promoting both human rights and the social, environmental and climate protection standards contained in its trade agreements; welcomes the Commission's introduction of a complaints mechanism to report non-compliance with trade and sustainable development commitments; advocates that each party to an agreement should respect, promote and effectively apply the internationally-recognised fundamental standards, as defined in the ILO core conventions, in their legislation and practices throughout their territory;
29. supports the Commission's proposal to make the Paris Climate Agreement an essential element in all future trade and investment agreements and to prioritise effective implementation of the Convention on Biological Diversity in these agreements;
30. encourages effective implementation of trade agreements by rewarding partner countries that comply with their TSD commitments. The parties should where appropriate begin to progressively implement tariff reductions tied to the effective implementation of provisions concerning the TSD chapter, and specify the conditions that countries must meet for such reductions, including the option of withdrawing these specific tariff lines in the event of infringement of the provisions;
31. considers that guaranteeing fairness and sustainability for all is the only way to contribute to the global changes that many citizens are demanding;
32. in this regard, looks forward to a Commission proposal due to be presented in 2021 for creating an effective carbon external border adjustment mechanism that is compliant with WTO rules and can guarantee fair competition for companies operating in the single market and boost the competitiveness of European industry. This mechanism should first complement, then replace in the longer term, the free-of-charge allocation of CO₂ emissions quotas and the compensation of the price of electricity for primary industries;
33. believes that particular attention should also be paid to promoting responsible entrepreneurship and transparency in supply chains; to this end, strongly supports current European initiatives to strengthen due diligence mechanisms; considers that this is also necessary in order to establish a level playing field on the EU internal market;
34. welcomes the appointment by the European Commission of a Chief Trade Enforcement Officer whose tasks include specifically monitoring the proper application of sustainable development commitments, especially with regard to the climate programme and labour rights; hopes that the Enforcement Officer will put in place comprehensive and ongoing channels of communication with local and regional governments and with civil society; will make sure that sufficient

resources are allocated to the Enforcement Officer to ensure that they can achieve their objectives;

Ensuring a level playing field for EU businesses

35. considers that further guarantees on respect for human rights and social standards need to be added during the work on the ratification of the EU-China Comprehensive Agreement on Investment;
36. underlines the importance of preserving a level playing field so that businesses are competitive on the internal market and internationally in global value chains; considers that there is a need to focus on applying the existing rules and to display greater assertiveness in mobilising trade defence mechanisms to combat market-distorting practices in third countries;
37. welcomes the agreement between the European Parliament and the Council on the legislative proposal for a regulation to strengthen the enforcement of trade rules, which responds to the current deadlock in the functioning of the WTO Appellate Body and which will also apply in the context of trade agreements – bilateral or regional – where a partner unilaterally imposes sanctions against the EU and blocks the dispute settlement procedure provided for in the agreements. Stresses that this regulation would extend the EU's ability to impose retaliatory measures such as tariffs, quantitative restrictions and in the field of public procurement to services and intellectual property. Also supports the European Commission which has established a one stop shop to "treat all violations of labour rights, climate change or human rights provisions at the same level as complaints relating to access to the markets of our trading partners";
38. considers that it is necessary to re-examine the competition rules in the light of the challenges of external competitiveness, third-country practices and the new situation created by innovation ecosystems; competition on the internal market and SME access to European and global value chains must remain key aspects of balanced, effective and independent European competition rules;
39. shares the view that the EU needs to go onto the attack to ensure reciprocity and tackle protectionism in access to public procurement markets in third countries;
40. underlines that foreign direct investment is a major source of growth, jobs and innovation, but that it can, however, bring with it risks of jeopardising national security and public order in the EU for sensitive sectors. In consequence, investment screening systems need to be put in place at national level;

Better anticipating and taking account of the negative externalities of participating in international trade

41. notes with concern that, at present, the benefits of free-trade agreements do not reach all regions, that certain economic sectors are often negatively affected, and that SMEs do not make full use of the potential of free-trade agreements and are more strongly impacted by the effects

of unfair competition as a result of the measures taken by certain third countries; regrets that the Commission communication does not put forward any means of mitigating the potential negative impact of trade agreements; nonetheless, is pleased that the Commission intends to design a number of digital tools and online portals for SMEs in order to help them access these agreements, opening up new opportunities in terms of access to public procurement and remedying the unfair competition referred to above;

42. is pleased that the Commission intends to propose a specific legislative act necessary for the enforcement of inter alia trade related provisions of the EU-UK Trade and Cooperation Agreement;
43. is pleased that the Commission has prepared an anti-coercion instrument;
44. highlights the important role SMEs play in the EU's international trade relations, creating more than 58% of all exports from the EU and more than 46% of all imports to the EU². In this respect underlines the need for an effective EU trade policy that protects SMEs, which are far more vulnerable and exposed to the volatility of international trade relations than large companies; welcomes the emphasis on SMEs in the Commission communication;
45. firmly believes that it is necessary to revise the impact analysis model and to carry out full, in-depth impact analyses (by sector and sub-sector, by geographical area - country/region - within the EU, in terms of impact on SMEs and in the social, environmental, climate and human rights sphere) of each existing agreement, together with aggregated impact analyses (based on the same criteria) of all existing agreements, in order to ensure that the EU's trade policy is conducted to the advantage of all, citizens and businesses; regrets the Commission communication's shortcomings in this respect; notes that the Commission communication makes provision only for carrying out an ex post evaluation of the impact of the EU's agreements on key environmental aspects, including the climate, carrying out work to develop a better understanding of the gender equality implications of various parts of trade policy and undertaking further analytical work (without giving any further details) on the impacts of trade policies on employment and different aspects of social development;
46. considers that there must be particular focus on the difficulties facing SMEs; supports the Commission's efforts to strengthen tools for decrypting trade agreements, particularly regarding rules of origin; considers it necessary to be able to meet SMEs' needs for expertise concerning access to third markets by using existing advice and support services at Member State and regional level and in chambers of commerce, and by making it easier to call upon outside expertise;
47. considers that the Enterprise Europe Network (EEN), present in 60 countries, and the network of national and regional trade promotion organisations that make up the European Trade Promotion Organisations' Association (ETPOA), present in 180 countries altogether, could be more widely mobilised with regard to their tasks of supporting SMEs in entering foreign

²

https://ec.europa.eu/eurostat/statistics-explained/index.php/International_trade_in_goods_by_enterprise_size#Share_of_SMEs_in_total_trade_.28intra_.2B_extra-EU.29

markets. Similarly, the EU should set up "FTA contact points", as close as possible to the SMEs and taking into account the "think small, act regional" principle, with regional trade promotion organisations playing a leading role;

48. considers that a dedicated approach for innovative SMEs wishing to move onto the international scene would fit in well with the InvestEU project. In this way, the risks facing this type of business could be properly covered and their international growth fostered;
49. considers that against the backdrop of the EU Green Deal, the current IPEEC-type framework for state aid should be revised in order to facilitate investment and amortise the running costs of cooperative/transnational projects carried out by this type of business Accordingly, is pleased that on 23 February 2021, the Commission launched a public consultation open until 20 April 2021 which calls on all stakeholders to comment on a proposal for a targeted review of the Communication on state aid supporting important projects of common European interest (IPCEI)³.

Brussels, 19 March 2023

The President
of the European Committee of the Regions

Apostolos Tzitzikostas

The Secretary- General of the European
Committee of the Regions

Petr Blížkovský

³

https://ec.europa.eu/competition/consultations/2021_ipcei/draft_communication_en.pdf - Link to public consultation:
<http://bit.ly/3dEFgeM>

II. PROCEDURE

Title	Trade Policy Review
Reference(s)	Communication from the European Commission on the Trade Policy Review - An Open, Sustainable and Assertive Trade Policy, COM(2021) 66 final
Legal basis	Article 307(4) TFEU
Procedural basis	Rule 41(b)(ii) of the Rules of Procedure
Date of Council/EP referral/Date of Commission letter	
Date of Bureau/President's decision	11 September 2020
Commission responsible	Commission for Economic Policy (ECON)
Rapporteur	Willy Borsus (BE/Renew Europe)
Analysis	August 2020
Discussed in commission	29 September 2020
Date adopted by commission	19 November 2020
Result of the vote in commission (majority, unanimity)	Majority
Date adopted in plenary	19 March 2021
Previous Committee opinions	<ul style="list-style-type: none"> – Opinion on <i>Implementation of Free Trade Agreements (FTAs): the regional and local perspective</i>, ECON-VI/50, July 2020. Rapporteur: Michael Murphy (IE/EPP) – Opinion on the <i>Trade Package</i>, ECON-VI/029, March 2018. Rapporteur: Micaela Fanelli (IT/PES) – Opinion on <i>Strengthening territorial resilience: empowering regions and cities to face globalisation</i>, ECON-VI/024, October 2017. Rapporteur: Micaela Fanelli (IT/PES) – Opinion on <i>A more responsible trade and investment policy</i>, ECON-VI/009, March 2016. Rapporteur: Neale Richmond (IE/EPP)
Date of subsidiarity monitoring consultation	Not applicable