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TRADE POLICY REVIEW

REPORT BY

EUROPEAN UNION

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by European Union is attached.

Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on European Union.

Contents

1 INTRODUCTION

1.1. In the three years since its last Trade Policy Review, the European Union (EU)'s trade policy has continued to operate in a very challenging international environment. Geopolitical tensions have been on the rise, most recently with the Russian Federation's illegal and unjustified war of aggression against Ukraine, with spill-over effects affecting nations around the world. Economic headwinds have been setting in with inflation on the rise and the persisting impacts of the COVID-19 pandemic. The negative impacts of climate change have been increasingly felt around the world with severe droughts, flooding and temperature anomalies compounding an already difficult situation. The world is in transition. An active trade policy is necessary to navigate today's troubled waters.

1.2. In February 2021, the EU set out its new trade strategy in the Trade Policy Communication[1] ("2021 Trade Policy Communication"). Responding to the challenges the EU faces and the political priorities of supporting the green and digital transitions, the new strategy was based on the concept of open strategic autonomy, designed to enhance the EU's ability to make its own choices and shape the world around it through leadership and engagement; and which also reflects the EU's fundamental belief that addressing today's challenges requires more rather than less global cooperation.

1.3. The new strategy was underpinned by openness, sustainability and assertiveness.

a. **Openness** – because the EU remains a firm believer in the benefits that deep, stable, and predictable trade relations can bring to all those involved. International trade has been a motor of growth for the EU's economy and for that of its partners and also helps to strengthen the bonds with our international partners more broadly. Everything possible must be done to sustain the benefits of cooperation and avoid a protectionist spiral.

b. **Sustainability** – because trade policy needs to do what it can to support sustainable development, including combatting climate change, minimising its negative effects, and supporting adaptation, while also promoting sustainable environmental practices and labour rights.

c. **Assertiveness** – because in a world of geopolitical, economic, and environmental transition, the EU needs to be able to effectively defend its interests and enforce its rights.

1.4. The multilateral trading system and the World Trade Organization (WTO) remain at the centre of the EU's trade policy. A testimony to the importance attached to multilateralism, the 2021 Trade Policy Communication includes a detailed annex on WTO reform. Preserving a stable and predictable international trading environment based on clear and enforceable rules that all WTO members abide to is of fundamental strategic interest for the EU. The EU has remained committed to the WTO, while also advocating for its reform through its biggest crisis in decades and will continue to do so. The outcome of the 12th Ministerial Conference (MC12) has shown that these efforts were not in vain and will hopefully give a new impetus to the continuous efforts to strengthen the multilateral trading order. Maintaining the momentum for MC13 is critical.

2 TRADE AND THE ECONOMIC ENVIRONMENT

2.1 The EU economic environment and its macroeconomic policy

2.1. The COVID-19 pandemic represented a huge shock for global and EU economies, with severe economic and social consequences over the last years. Economic activity in the EU suffered a sharp contraction in 2020 as containment measures were imposed, supply chains were put under pressure or disrupted, and international trade choked. After expanding by 1.8% in 2019, the EU economy contracted by 5.7% in 2020. The successful roll-out of the vaccination campaign, better adaptation of firms and households to the constraints of the pandemic environment and policy actions at national and EU level paved the way for a rebound of 5.4% in 2021.

[1] European Commission, *Trade Policy Review – An Open, Sustainable and Assertive Trade Policy*. Viewed at: https://trade.ec.europa.eu/doclib/docs/2021/february/tradoc_159438.pdf.

2.2. Decisive and coordinated policy actions at national and EU level in response to the COVID-19 pandemic helped alleviate the negative impact of the pandemic-related shock. To highlight some key policy actions, the European Central Bank announced a EUR 750 billion pandemic emergency purchase programme (PEPP) with an additional EUR 600 billion added later. The EU also redirected up to EUR 65 billion cohesion funds to help Member States tackle the COVID-19 crisis. The European Investment Bank (EIB) Group put in place a EUR 25 billion pan-European guarantee fund and provided loans up to EUR 200 billion for companies with a focus on small and medium-sized enterprises (SMEs) throughout the EU. The EU activated the general escape clause under the Stability and Growth Pact to accommodate exceptional government spending in response to the pandemic. The EU also established an instrument to support temporary unemployment schemes throughout the crisis, the "Support to mitigate Unemployment Risks in an Emergency" (SURE).

2.3. Russia's war of aggression against Ukraine poses new challenges to the EU economy. The invasion has implied renewed disruptions in global supply chains, fuelled commodity price surge and inflation, and heightened uncertainty. The EU is particularly hit due to its geographical proximity to Russia and Ukraine, heavy reliance on imported fossil fuels (especially from Russia), and high exposure to related supply chain disruptions. After expanding by 3.3% in 2022, the European Commission's autumn forecast expects EU economic growth to decelerate sharply to 0.3% in 2023, with several EU countries expected to face a recession. Easing inflation and normalisation of supply chain pressures is expected to contribute to a modest recovery in 2024, with economic growth in the EU reaching 1.6%.

2.4. The impact of the pandemic led to a deterioration of the labour market, but EU and national government policy measures successfully contained the downturn. In 2019, EU employment reached a record high in absolute terms, and the unemployment rate was at its lowest level since 2000. During the pandemic, the widespread use of job retention schemes kept many employees attached to their jobs. As a result, the unemployment rate increased only moderately from 6.8% in 2019 to 7.2% in 2020. In line with the improving economic situation, the labour market started to regain strength and the unemployment rate decreased to 7% in 2021 and is expected to go further down to 6.2% in 2022. Despite the challenging environment and the subsequent shocks from Russia's war of aggression against Ukraine, the EU labour market is expected to show resilience with the unemployment rate moderately increasing to around 6.5% in 2023 and then declining to 6.4% in 2024.

2.5. Surging inflation is currently a key challenge eroding households' real disposable income. The harmonised consumer price inflation rate (HICP) reached 1.4% in 2019. Suppressed economic activity due to the pandemic and falling energy prices pushed down consumer price inflation to 0.7% in 2020. Inflation started to increase from early 2021 as economic activity picked up and energy prices increased. The subsequent energy and commodity price shock combined with supply chain disruptions caused by the Russia's war of aggression against Ukraine from early 2022 further fuelled price increases. As a result, inflation in the EU surged from 2.9% in 2021 to 9.3% in 2022 – the highest in decades. Inflation is expected to gradually decline to 7% in 2023 and then to 3% in 2024.

2.6. The expected economic growth and inflation in the EU are surrounded by exceptionally large risks and resulting uncertainty. A major downside risk for growth is related to the security of gas supplies. Further supply shocks in the commodity markets also continue to pose a risk and could further fuel inflation. Inflationary pressures could become more entrenched, further eroding households' income and weigh on the recovery. Risks stemming from the global economic growth remain significant.

2.7. On the other hand, several crucial EU policy actions will support economic growth in the coming years. In 2020, the EU unveiled its Next Generation EU[2] (NGEU) recovery plan with the aim to support the recovery of EU countries from pandemic and foster the green and digital transitions. Financial support under the NGEU reaches EUR 750 billion and it is channelled through seven programmes in the form of grants (EUR 390 billion) and loans (EUR 360 billion). The Recovery and Resilience Facility (RRF) represents the bulk of the NGEU effort comprising close to 90% of the total budget. According to the RRF, Member States applying for financial support, have to submit national recovery and resilience plans setting out their reform and investment agenda up to 2026.

[2] Viewed at: https://ec.europa.eu/info/strategy/recovery-plan-europe_en.

2.8. Following Russia's war of aggression against Ukraine, the EU has launched the REPowerEU Plan with the objective to end the EU's dependence on Russian fossil fuels. The plan aims at fostering energy savings, diversification of energy supplies and accelerated roll-out of renewable energy. The RRF would be at the core of the implementation of the REPowerEU. Upon approval of the Commission's proposal, Member States would have to integrate a dedicated REPowerEU chapter in their Recovery and Resilience Plans (RRPs).

2.9. The EU is also revising its economic governance framework which aims to guide Member States in achieving their economic and fiscal policy objectives. It seeks to achieve macroeconomic convergence, safeguard sound public finances and address macroeconomic imbalances. Together with a common monetary policy and a common currency in the euro area, the framework has created conditions for economic stability, sustainable economic growth and higher employment for those living in the EU. Following a public debate, which started in February 2020, the Commission published a Communication presenting its orientations for the future of the EU economic governance on 9 November 2022.[3]

2.2 Trends in foreign trade and foreign direct investment

2.10. The EU remains the number one trading bloc in the world looking at imports and exports of goods and services combined, ahead of the United States, China, Japan and the UK. In 2021, the EU accounted for 16.2% (EUR 6.3 trillion) of total world trade in goods and services (see Table **1**). Taking trade in goods separately (exports and imports combined), the EU is the world's second largest trading block (after China). The EU holds a leading position (and the share of 25%) in the global trade of services.

Table 1 Total world trade by reporter (goods and services)

(EUR billion)

	Exports			Imports			Exports + Imports		
	2019*	2020	2021	2019*	2020	2021	2019*	2020	2021
World	**18,307**	**16,068**	**19,461**	**18,425**	**16,045**	**19,227**	**36,732**	**32,113**	**38,688**
EU28	*3,108*	..	..	*3,028*	..	..	*6,136*	..	..
EU27	***3,214***	***2,852***	***3,238***	***2,966***	***2,597***	***3,036***	***6,180***	***5,448***	***6,275***
China	2,485	2,520	3,180	2,295	2,137	2,638	4,780	4,658	5,818
US	2,262	1,889	2,159	2,762	2,454	2,867	5,024	4,344	5,026
UK	793	684	742	859	735	767	1,652	1,419	1,509
% of world:									
EU28	17.0%	..	..	16.4%	..	..	16.7%	..	..
EU27	***17.6%***	***17.7%***	***16.6%***	***16.1%***	***16.2%***	***15.8%***	***16.8%***	***17.0%***	***16.2%***
China	13.6%	15.7%	16.3%	12.5%	13.3%	13.7%	13.0%	14.5%	15.0%
US	12.4%	11.8%	11.1%	15.0%	15.3%	14.9%	13.7%	13.5%	13.0%
UK	4.3%	4.3%	3.8%	4.7%	4.6%	4.0%	4.5%	4.4%	3.9%

Note: Services figure does not include the value of services provided by EU-owned companies established in other countries (i.e. Mode 3).

* - For the ease of comparison with the following years values of UK trade in 2019 are taken out of the EU aggregate and presented separately from the ones for EU27.

Source: IMF, WTO, Eurostat/DG Trade (Intra-EU trade excluded).

2.11. As a share of GDP, total EU trade in goods and services corresponded to around 43% in 2021 and has been following an increasing trend over the last decade. Notwithstanding this trend, world-wide lockdowns related to the COVID-19 pandemic resulted in a temporary decline in 2020.

2.12. About 38 million EU jobs depend on EU exports. The share of EU employment supported by sales of goods and services to the rest of the world in total employment increased from 12% in 2000 to 18% in 2019. This means that one in five EU jobs is supported either directly or indirectly by extra-EU exports.[4]

[3] Viewed at: https://economy-finance.ec.europa.eu/system/files/2022-11/com_2022_583_1_en.pdf; European Commission, *Communication on orientations for a reform of the EU economic governance framework*, COM(2022) 583 final.

[4] Viewed at: https://circabc.europa.eu/ui/group/50a0487d-086a-4a75-a1ff-92bdd2ec2c4b/library/628961d7-1870-4113-9724-ed2bbf19ea84/details.

2.13. The United States is the EU's largest export market for goods. In 2021, it accounted for EUR 400 billion (18%) of total EU goods exports. Other large export markets are the UK at EUR 284 billion (13%), China at EUR 224 billion (10%) and Switzerland at EUR 157 billion (7%). The same year, the EU imported EUR 473 billion (22%) of goods from China, EUR 233 billion (11%) from the US and EUR 163 billion (8%) from the Russian Federation.

2.14. The spike in energy prices has negatively affected the EU's energy trade balance and the EU merchandise trade surplus moved to a deficit in 2022. Over the course of the first half of 2022, this deficit has widened.

2.15. With respect to services, EU exports are directed primarily to the United Kingdom (20%) and the United States (20%), as well as to Switzerland (12%), and China (5%). The EU's leading service suppliers are the United States (30%), followed by the United Kingdom (18%) and Switzerland (7%). The proportion of EU services exports (excluding investment) accounted for by digitally-enabled services, amounts to 48%.

2.16. In 2020, EU companies were the source of around EUR 8,600 billion outward Foreign Direct Investment (FDI) stocks worldwide, while non-EU companies had FDI stocks in the EU worth around EUR 7,300 billion. The figures remained similar compared to 2018 (see Table 2). The main leading sources and destination of FDI are the United States, the United Kingdom and Switzerland (both for inward and outward stocks).

Table 2 EU27 FDI

(EUR billion)

	Inward			Outward		
	2018	2019	2020	2018	2019	2020
Stocks	6,900	7,176	7,317	8,661	9,083	8,589
Flows	-263	55	302	-205	128	106

Source: Eurostat.

3 MULTILATERAL AND BILATERAL TRADE POLICY

3.1 The EU's multilateral trade agenda

3.1. Against the backdrop of major transformations such as the green and digital transitions, as well as serious geopolitical tensions, global rules-based trade and trade cooperation with the WTO at its core is more important than ever. A well-functioning WTO is vital for ensuring free and fair trade.

3.2. Accordingly, the EU has put WTO reform at the heart of its trade policy agenda in the review period and actively pursues its objectives. The 12th Ministerial Conference (MC12), which was one of the most successful Ministerial Conferences since the establishment of the WTO, has vindicated the EU's approach and should help to give new impetus to the continuous efforts for further reform.

3.3. MC12 delivered significant outcomes. The WTO has been able (i) to show that it remains relevant and responsive to current challenges with outcomes in health, food security, and sustainability; and (ii) to equip itself for the future with the commitment to WTO reform. The fisheries subsidies agreement achieved two strategic objectives: integrating sustainability into WTO rules and reinforcing disciplines on subsidies. The extension of the moratorium on customs duties on e-commerce until MC13 or until 31 March 2024 sent an important message to business.

3.1.1 WTO Reform

3.4. The EU welcomes in particular that the MC12 outcome document identifies WTO reform as a fundamental interest and contains a political commitment to discussions with a view to having a fully and well-functioning dispute settlement mechanism by 2024. The EU remains determined to push forward with **WTO reform** across the three core functions (dispute settlement, negotiation, and deliberation) of the organisation in preparation for MC13.

a. *Dispute settlement*

3.5. No WTO reform is more critical or urgent than delivering on the aim identified in the MC12 outcome document of having a "fully and well-functioning dispute settlement system" by 2024. The EU is constructively engaged in reform discussions. Time before 2024 is tight. The EU believes that reform discussions should be focussed on identifying solutions for a limited set of issues that require improvement with a view to reaching agreement no later than MC13.

3.6. While the EU's priority is finding a lasting multilateral solution to the Appellate Body situation, in the meantime, the EU will continue to support the smooth operation of and foster participation in **the Multi-party interim appeal arbitration arrangement (MPIA)**. The MPIA is an interim arrangement designed to preserve, in any WTO disputes among participating WTO members, the right to a functioning two-tier and independent dispute settlement mechanism under WTO rules. The MPIA is open to all WTO members to join, for as long as the Appellate Body is not able to function fully. Not only is the MPIA of use to regular users of WTO dispute settlement; more fundamentally, it signals commitment to a rules-based international trading system, with properly functioning WTO dispute resolution at its heart.

b. *Negotiating function*

(i) Multilateral negotiations

3.7. The EU played an active role at the MC12 in June 2022 to reach a landmark Agreement on Fisheries Subsidies delivering on UN Sustainable Development Goal Target 14.6 (SDG14.6). The agreement prohibits subsidies to vessels or operators engaged in illegal, unreported and unregulated (IUU) fishing, prohibits subsidies to fishing on overfished stock without appropriate measures being in place to rebuild the stock, prohibits subsidies to fishing on unregulated high seas, and includes far-reaching transparency provisions.

3.8. The EU's internal procedures are already underway to accept the agreement and to have it enter into force as soon as possible. To assist developing countries to implementing the new agreement, the EU supports the new WTO fisheries funding mechanism. The EU is committed to constructively engage in the continued negotiations to deliver a comprehensive agreement addressing subsidies that contribute to overcapacity and overfishing.

3.9. While the success of the fisheries agreement has breathed some oxygen into the system, there are more WTO rules in need of modernisation. The EU considers that work on level playing field issues, including on industrial subsidies is fundamental to making the WTO fit for current challenges. In view of the increasing importance of industrial policy, it is important to reinforce the deliberating function in the WTO on how to address distortions arising from a wide range of state interventions, including subsidies and activities of State-owned enterprises. While state interventions can be an appropriate tool to contribute to important public objectives, such as the climate transition, the state interventions should be designed so as to avoid or minimise negative spill over effects on trading partners.

(ii) Plurilateral negotiations

3.10. The plurilateral initiatives (on domestic regulations, e-commerce and investment facilitation for development) have played an important role in enabling WTO members to work on new rules and the finalisation of the ongoing open plurilateral Joint Statement Initiatives (JSIs) negotiations on investment facilitation for development and e-commerce are of strategic importance for the credibility of the system.

Joint Statement Initiative on Services Domestic Regulation

3.11. The EU has been at the forefront of the negotiations on a landmark deal to cut red tape in services. In December 2021, 67 WTO members, including the EU, successfully concluded the negotiations of the Joint Statement Initiative on Services Domestic Regulation (2 more members joined the Initiative since then). It is the first WTO deliverable in the area of trade in services in more than 20 years. The negotiated outcome will cut red tape, simplify unnecessarily complicated regulations and ease procedural hurdles faced by service suppliers. The agreed disciplines will enter into force upon completion of the certification procedure in the WTO.

Investment facilitation for Development

3.12. Given investment facilitation's contribution to the development agenda, the EU attaches great importance to negotiations under the Joint Statement Initiative on Investment Facilitation for Development. The EU considers that the future agreement could benefit all WTO members, notably developing countries, as they seek to attract foreign direct investment and bridge the current "investment gap" in order to reach the SDGs. The agreement will include provisions on special and differential treatment that recognise the need to support capacity building in developing countries. The EU is committed to successfully finalize the process already in 2023, so that this agreement becomes a deliverable of MC13.

e-commerce

3.13. The plurilateral WTO Joint Statement Initiative on e-commerce remains the EU's priority in the area of digital trade. Within this Joint Statement Initiative, 87 WTO members, representing a mix of developed, developing and least-developed countries, are conducting negotiations on trade-related aspects of electronic commerce. The COVID-19 pandemic highlighted the importance of digital economy and its huge opportunities by lowering the costs for businesses – particularly micro-, small and medium sized enterprises (MSMEs) – to access and participate in global markets. A global set of rules and commitments on digital trade within the WTO framework could greatly help to unlock these opportunities, particularly for the developing and least developed countries.

3.14. The EU therefore continues to play a constructive role with a view of driving these negotiations towards a high-standard and commercially significant outcome building on existing WTO agreements and frameworks. The EU welcomes the positive negotiating momentum and the substantial progress made to date in the negotiations. A positive outcome in the negotiated areas will deliver important benefits including boosting consumer confidence and supporting businesses trading online.

3.15. In addition to the plurilateral work on e-commerce, the EU remains committed to maintaining the multilateral moratorium on custom duties on electronic transmissions. The EU is of the view that digital trade should be free of customs duties in order to facilitate the widespread adoption of digital technologies, which are key for the economic growth of both developed and developing countries, their ability to innovate and the prosperity of their citizens. The EU also remains committed to the reinvigoration of the Work Programme on Electronic Commerce, and particularly its development dimension, as instructed in the MC12 ministerial decision.

c. Monitoring and deliberative function

3.16. The WTO's large network of regular councils and committees present an important pool of expertise when it comes to the challenges the organisation faces. These specialized bodies can play an essential role to elevate policy discussion, facilitate the diffusion of information, help to solve specific trade concerns, share experiences, identify best practices and issue non-binding recommendations.

3.17. At the same time, there is significant room for improvement when it comes to transparency and the effective functioning of WTO bodies. In this context, the EU has put forward a proposal to develop guidelines for WTO councils and committees in which Members raise and discuss trade concerns[5] and co-sponsored the proposal on notification compliance in the area of trade in goods.[6] The EU remains committed to work actively with other Members on improving the efficiency and functioning of WTO bodies through discussions in specific Committees, as well as in the General Council.

3.18. Besides the work on improving the practical functioning of WTO bodies, the EU sees the need for more meaningful policy deliberation on major pressing trade policy challenges to help build convergence. To name a few areas: the nexus between trade and climate, addressing distortive

[5] WTO Document, WT/GC/W/777/Rev.6.
[6] WTO Document, JOB/CTG/14/Rev.8.

state interventions and finding new ways to support developing countries facing difficulties in integrating into the global trading system and global value chains.

d. Development

3.19. Contributing towards development is a critical challenge of the WTO agenda. The EU considers development to be a cross-cutting issue as an area for policy deliberation. It is imperative that the WTO finds new ways to support the efforts of those developing countries that face particular difficulties in integrating into the global trading system. Improving the deliberative function in key committees, including the Committee on Trade and Development (CTD), and making them a forum for meaningful policy discussions could help identify how the WTO can support integration in global value chains as well as the process of regional integration and industrialisation. Particular attention should be given to Least Developed Countries, including to ensure a smooth transition in the case of graduation.

3.1.2 WTO response to global challenges

a. Trade and Health

3.20. The EU has been at the forefront of the work on the WTO response to the COVID-19 pandemic, including through its participation in the Ottawa Group. In June 2021, the EU put forward in the WTO a comprehensive approach in relation to trade and health, which included elements such as trade facilitating measures, improved transparency, restraint from export restrictions, as well as expanding production capacity. Intellectual property was also part of this proposed broader solution. Following the 2022 MC12 outcome, the EU has actively participated in the various committees mentioned in the Ministerial Declaration on the WTO Response to the COVID-19 Pandemic and Preparedness for Future Pandemics through experience sharing sessions.

3.21. WTO members also agreed at MC12 on a Ministerial Decision on the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) that provides for a number of clarifications and a waiver of certain obligations of the TRIPS Agreement to allow eligible WTO members to authorise a company to manufacture and export COVID-19 vaccines in a fast and simplified manner without the consent of the patent owner. The EU has remained engaged in this important and difficult discussion and has been instrumental in arriving to this outcome.

3.22. Work on trade and health must continue beyond MC12. The pandemic highlighted the crucial role of trade in combatting public health crises. There is a need to take stock of the lessons learnt and make the WTO more responsive for future pandemics.

b. Agriculture and Food Security

3.23. The EU's active and constructive engagement contributed to the successful adoption of the Declaration on the Emergency Response to Food Insecurity and the Decision in support of the World Food Programme during MC12. These outcomes demonstrate that the WTO can deliver a timely response to the current challenges. Addressing the food security concerns was a key priority for the EU for MC12 and will continue to play a crucial role in the preparations for MC13.

3.24. The EU remains fully engaged in the discussions on the implementation of the MC12 Ministerial Declaration. In this context, transparency is one of the priorities, including transparency's role in addressing food security challenges for example in relation to export restrictions, which can be detrimental to food importing countries. Further work on improving transparency across the board in agriculture is necessary. The EU will also continue to push for reforms of trade distorting domestic support, which can adversely impact food security. A new approach in the agricultural negotiations post MC12 is needed: integrating issues of food security, environment, climate, poverty and sustainable production.

c. Trade and Environment & Climate

3.25. The EU believes that the WTO must help to address the urgent challenges of climate change and environmental sustainability. The EU has co-sponsored and been actively engaged in the Trade and Environmental sustainability structured discussions, Informal Dialogue on the Plastics Pollution and Sustainable Plastics Trade and the Fossil Fuel Subsidy Reform initiatives in the WTO in this regard.

3.26. Trade and Environmental Sustainability structured Discussions can contribute by considering how trade related climate measures and policies can be designed in a way that maximises environmental and climate impact at the same time limiting impacts on trade; explore approaches for facilitating access to environmental goods and services; identify trade policy actions that can contribute to transition to resource efficient and circular economy; and exploring the ways to enhancing transparency on subsidies and exchange best practices in design environmentally positive subsidies in conformity with relevant WTO rules.

3.27. The Fossil Fuel Subsidy Reform initiative shows the way how the WTO can play a role in reducing harmful fossil fuel subsidies, while taking into account the development and social aspects and as a first step to increase transparency on fossil fuel subsidies.

3.28. The Informal Dialogue on the Plastics Pollution will help shape understanding of global trade in plastics, including flows of plastics embedded in internationally traded goods and how the WTO can contribute to the United Nations Environment Assembly (UNEA) process to end plastic pollution.

3.29. The EU is also one of the initiating members (together with Ecuador, Kenya and New Zealand) launching the Coalition of Trade Ministers on Climate. The Climate Coalition was officially launched during the World Economic Forum Annual Meeting in Davos on 19 January 2023. The coalition establishes a high-level political dialogue providing guidance on how trade and trade policies can help respond to the climate crisis, sustainable development and contribute to the just transition.

3.30. Beyond its participation in different plurilateral initiatives, the EU is convinced of the importance of reinforcing multilateral deliberation in the WTO on critical trade and environmental challenges in particular those related to the climate transition. The WTO Committee on Trade and Environment could play a critical role in this regard.

3.2 The EU's bilateral agenda

3.31. The EU continued to pursue an active bilateral trade agenda in an increasingly difficult international environment affected by the COVID-19 pandemic, Russia's war of aggression against Ukraine and rising protectionism. The EU's efforts concentrated on strengthening bilateral partnerships; creating the conditions to support the security, resilience, and stability of supply chains; creating new opportunities for businesses through diversification of imports, exports and investments; and supporting sustainable development.

3.2.1 Bilateral trade agreements

3.32. The EU has in place 42 preferential trade agreements with 74 partners. In 2021, EU trade with preferential partners amounted to EUR 1,891 billion covering 44% of its external trade. EU exports to those countries reached EUR 1,049 billion and EU imports from them amounted to EUR 841 billion. Adding trade with partners that the EU has concluded negotiations on agreements with, but where the agreements are in the process of being adopted or ratified (3.4%), the share of EU preferential trade in its total external trade would rise to 47.4%. EU trade in services with preferential partners saw a trade surplus of EUR 91 billion in 2020 down from EUR 106 billion in 2019 but still almost three times as much as the EU surplus with all trading partners (i.e., EUR 33 billion in 2020, down from EUR 50 billion in 2019).

a. Europe and its Neighbourhood

3.33. The EU has Association Agreements with **Georgia, Republic of Moldova and Ukraine**. These agreements include Deep and Comprehensive Free Trade Areas which cover trade liberalization and approximation with the EU acquis in selected areas, notably Technical Barriers to Trade (TBT), Sanitary and Phytosanitary measures (SPS), customs, procurement and services. On 23 June, the European Council decided to grant candidate country status to Ukraine and Moldova, and recognise European perspective of Ukraine, Moldova and Georgia.

3.34. With effect of 4 July 2022, the EU granted temporary trade-liberalisation measures to Ukraine supplementing trade concessions applicable under the EU-Ukraine Association Agreement.[7]

3.35. The European Commission has been also providing macro-financial assistance (MFA) loans to Ukraine. The total MFA support provided to Ukraine since the beginning of the war was EUR 7.2 billion, which was fully disbursed until end of 2022. Moreover, on 9 November 2022, the Commission proposed an unprecedented support package for Ukraine of up to EUR 18 billion in highly concessional loans under the new MFA+ instrument, which was approved by the co-legislators in mid-December, to be disbursed in regular instalments as of early 2023. First tranche of EUR 3 billion was already disbursed in January 2023.

3.36. Ukraine has been formally invited to join to the EU-Common Transit Countries' Convention on a Common Transit Procedure and the Convention on the Simplification of Formalities in Trade in Goods. It deposited its instruments of accession to the Conventions in August and can therefore operate common transit from 1 October 2022. This is an important step forward in Ukraine's pre-accession strategy and will greatly support the work on Solidarity Lanes to and from Ukraine.

3.37. These Conventions enable goods to move much more easily between the EU and the Common Transit Countries.[8] Simplified rules, such as mutually recognised financial guarantees and less controls, help to cut down on costs for EU and partner country businesses, while facilitating and boosting trade. As such, Ukraine's participation in these Conventions will facilitate trade between Ukraine and the EU Member States, as well as other common transit countries. In addition, the EU has also concluded temporary road transport agreements with Ukraine and Moldova, which have partly liberalised road freight transport between the parties and thereby supported the Ukrainian and Moldovan economies in light of Russia's war of aggression against Ukraine.

3.38. With effect of 23 July 2022, the EU granted autonomous trade measures to Moldova in the form of one-year additional tariff rate quotas for the seven agricultural products which are not yet fully liberalized under the EU-Moldova Deep and Comprehensive Free Trade Agreement (DCFTA).[9]

3.39. In addition, in December 2020, the EU extended pre-existing autonomous trade measures applying to the **Western Balkans** for a further period of five years, until 31 December 2025.[10] The measures provide additional market access going beyond the trade preferences set out in the Stabilisation and Association Agreements that the EU has signed with each of the Western Balkans partners.

3.40. The EU concluded negotiations for enhanced non-preferential trade agreements with **Kyrgyz Republic** in July 2019 and with **Uzbekistan** in June 2022, continues negotiations for such an agreement with Azerbaijan, launched in 2017, and the mandate to open negotiations for an enhanced non-preferential trade agreement with **Tajikistan** was validated by the Council in December 2022.

3.41. The **EU-UK Trade and Cooperation Agreement** (TCA) concluded between the EU and the **UK** was applied provisionally as of 1 January 2021 and entered into force on 1 May 2021. It includes preferential trade commitments in trade in goods (zero tariffs and zero quotas), services and investments, digital trade, good regulatory practices and regulatory cooperation, capital movements, intellectual property, public procurement, aviation and road transport. Those commitments are underpinned by provisions ensuring a level playing field and sustainable development (LPFS). The TCA goes beyond trade and it also covers energy, fisheries, social security coordination, law enforcement and judicial cooperation in criminal matters, thematic cooperation, participation in Union programmes and dispute settlement.

b. Africa

3.42. In the 2021 Trade Policy Communication the EU committed to reinforce its engagement with African countries by, inter alia, deepening and widening its existing trade agreements with African regional economic communities and strengthening their sustainability dimension, as well as

[7] Regulation (EU) 2022/870, *OJ L 152*, 3/6/2022, p. 103.
[8] Norway, Iceland, Switzerland, North Macedonia, Serbia, Türkiye and UK.
[9] Regulation (EU) 2022/1279, *OJ L 195*, 22/7/2022, p. 6.
[10] Regulation (EU) 2020/2172, *OJ L 432*, 21/12/2020, p. 7.

supporting cooperation with the **African Union** and its members and the smooth implementation of the African Continental Free Trade Area.

3.43. That communication also proposed to set up a **EU-AU High level dialogue** on economic integration, between the two Commissions aiming at supporting the implementation of the African Continent Free Trade Area (AfCFTA), notably through sharing expertise and lessons learnt on matters pertaining to trade, investment, regional value chains, industrial development, customs union and single markets. Another objective is to enhance EU-AU cooperation in the WTO. This high level dialogue was launched during the Commission-to-Commission meeting that took place in Brussels on 28 November 2022, and its first meeting is foreseen in 2023. The EU is also foreseeing to adopt a Memorandum of Understanding with the Secretariat of the African Continental Free trade Area to notably improve communication and enhance policy discussion between both sides on matters pertaining to trade and economic integration.

3.44. Negotiations of a Sustainable Investment Facilitation Agreement between the EU and **Angola** was concluded in November 2022. The agreement, once signed and ratified by the parties, will facilitate investment, simplify procedures, enhance public-private dialogue and promote responsible investment. Negotiations to extend the scope of the existing Economic Partnership Agreement between the EU and five **Eastern and Southern African** countries (Comoros, Madagascar, Mauritius, Seychelles and Zimbabwe) beyond trade in goods and development cooperation to other trade-related issues were launched in October 2019 with 10 rounds of negotiations having taken place by December 2022. The EU is currently negotiating with **Kenya** the bilateral implementation of the Economic Partnership Agreement concluded in 2014 with the five countries of the East African Community but not implemented. Under the EU-Central Africa Economic Partnership Agreement, the EU and **Cameroon** concluded in June 2022 the negotiation for a protocol on rules of origin.

3.45. The EU and the six countries implementing the **EU-SADC** Economic Partnership Agreement (Botswana, Eswatini, Lesotho, Mozambique, Namibia and South Africa) are working on its review and impact assessment. Under the EU-**Ghana** Interim Economic Partnership Agreement, Ghana started effective implementation of tariff cuts for EU products entering Ghana on 1 July 2021 (in addition to products covered by 0% most-favoured-nation (MFN) tariffs were liberalised in early 2020); further liberalisation by Ghana started on 1 January 2022, according to the agreed schedule. Under the EU-**Ivory Coast** Interim Economic Partnership Agreement, the Ivory Coast started the second phase of liberalisation (tariff cuts) on 1 January 2021.

c. Asia

3.46. In Southeast Asia, on 30 June 2019 the EU signed the Free Trade Agreement and the Investment Protection Agreement with **Viet Nam**. The EU-Viet Nam Free Trade Agreement entered into force on 1 August 2020 and establishes a free trade area between the EU and Viet Nam and sets out the rules accompanying trade liberalization, in a manner mindful of high levels of environmental and labour protection and relevant internationally recognised standards and agreements. The EU-Vietnam Investment Protection Agreement is ratified by Viet Nam and will enter into force once ratified by all EU Member States.

3.47. In addition, the **EU-Singapore** Free Trade Agreement entered into force on 21 November 2019. The EU-Singapore Investment Protection Agreement will enter into force once ratified by all EU Member States. The EU also continues negotiations for a free trade agreement with **Indonesia**, a process launched in September 2016.

3.48. The EU has relaunched negotiations on a comprehensive free trade agreement with **India** on 17 June 2022 and launched separate negotiations for an Investment Protection Agreement and an Agreement on Geographical Indications. The first rounds of negotiations were held in June – July, in October and in December 2022.

3.49. Negotiations on data flows in the framework of the **EU-Japan** Economic Partnership Agreement, which contains an explicit review clause on data flows, were launched on 24 October 2022.

d. Pacific

3.50. On 30 June 2022 the **EU and New Zealand** concluded the negotiations for a modern free trade agreement with several new important and ambitious provisions. This is the first agreement reflecting the outcome of the EU's 2022 Trade and Sustainable Development review, with sanctionable commitments on the Paris Climate Agreement as well as the International Labour Organization (ILO) core labour standards. Moreover, this is the EU's first trade agreement with a dedicated chapter on sustainable food systems, with provisions on gender equality and on trade and fossil fuel subsidies reform, also comprising unique commitments on circular economy, deforestation, carbon pricing, and protection of the marine environment.

3.51. Negotiations for a comprehensive trade agreement with **Australia**, launched in June 2018, are ongoing.

3.52. The **Solomon Islands** acceded to the EU-Pacific States Economic Partnership Agreement on 17 May 2020. An accession process is underway with Tonga. Timor Leste, Tuvalu, Niue and Vanuatu informed the EU on 15 October 2020, 9 June 2022, 29 November 2022 and 1 December 2022 respectively of their intention to accede to the agreement.

e. Latin America and the Caribbean

3.53. The EU is also active in developing the trade relations with partners in **Latin America and the Caribbean**. Since the political conclusion of the negotiations of the trade part of the **EU-Mercosur** agreement in June 2019, the EU together with Mercosur has been engaged in technical work to finalise the Agreement.

3.54. Negotiations with **Chile** to modernise and upgrade the existing bilateral agreement started in 2017 and on 9 December 2022, the EU and Chile concluded negotiations on an "Advanced Framework Agreement". The agreement will help deepen existing cooperation. It aims at boosting trade and investment also to support of the green and digital transitions and to provide new opportunities for businesses. The EU-Chile Advanced Framework Agreement is a comprehensive agreement that beyond its trade component, covers also political dialogue and cooperation (including with respect to human rights as well as climate change and the environment).

3.55. In 2018, the EU reached a political agreement with **Mexico** on the modernisation of the current Global Agreement (in force since 2000) and complemented by the commitments on public procurement in 2020. The conclusion of the negotiations of the political and cooperation pillar took place in 2019. The legal revision of the EU-Mexico modernised Agreement is currently ongoing.

3.56. **EU and Central America** (CA) pursued the dynamic implementation of the trade pillar of their Association Agreement. EU and CA signed the protocol for Croatia's accession to the Agreement in 2020, the EU agreed to protect 11 new Central American new geographical indications in June 2022 and an ex-post evaluation published by the EU in September 2022 showed that provisional application of the trade pillar of the Agreement since 2013 had contributed to create jobs, increase welfare and decrease poverty in Central America.

3.57. 2022 marked the 10th anniversary of application of the **Multi-party Trade Agreement (2013) with Peru and Colombia** and the 5th anniversary of the **accession of Ecuador** (2017). The Agreement gradually opens up markets on both sides increases the stability and predictability of trade and investment flows and supports structural reforms.

3.58. Negotiations on an agreement to protect geographical indications in the context of the implementation of the EU-**CARIFORUM** Economic Partnership Agreement[11] are ongoing. The second evaluation and implementation study following the 10th year of implementation of the EU-CARIFORUM Economic Partnership Agreement was published in 2021 and its results are being used in the ongoing joint review of the agreement.

[11] Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Saint Lucia, Saint Vincent and the Grenadines, Saint Kitts and Nevis, Suriname, Trinidad and Tobago.

3.2.2 Trade-related cooperation

3.59. Apart from negotiations of new trade agreements, the EU is also engaged in other forms of trade-related cooperation with certain trade partners.

3.60. During the bilateral summit on 15 June 2021, the EU and the US agreed to suspend for a period of five years retaliatory tariffs authorised by the WTO and move forward with a **Cooperative Framework for Large Civil Aircrafts** (LCAs). The parties agreed to only finance their LCA manufacturers on market terms and provide R&D funding through an open and transparent process. The Cooperative Framework for LCA also established a working party, chaired by each party's trade minister, tasked with analysing and addressing non-market practices of third parties in this sector.

3.61. Encouraged by resolving one of their most ardent trade conflicts, the EU and the US announced the beginning of a renewed transatlantic partnership at their bilateral summit on 15 June 2021.[12] Strengthening trade, investment and technological cooperation is a key priority of both parties in a multilateral and bilateral context. Kick-starting this positive agenda, the EU and US agreed to establish the **EU-US Trade and Technology Council (TTC)** as platform for cooperation.

3.62. The objective of the TTC is to enhance trade and investment, strengthen technological and industrial leadership, and boost innovation, by promoting emerging technologies and infrastructure, and encouraging compatible standards and regulations based on shared democratic values.

3.63. Throughout the TTC process, the EU and US welcome and facilitate dialogue with business, trade unions, consumer organizations, and environmental and other non-government organizations. The TTC working groups organise many events with stakeholders and publish feedback on the EU's online discussion platform, Futurium.[13] Furthermore, a tripartite Trade and Labour Dialogue was set up during the second TTC ministerial meeting in spring 2022, which brings together representatives of trade unions, businesses and government and which had its inaugural meeting in September 2022.[14] Its objective is to explore ways to promote internationally recognised labour rights, including the eradication of forced labour and child labour.

3.64. The most recent ministerial meeting of the TTC took place on 5 December 2022. In the area of trade, the TTC agreed at this occasion on the need to advance the transition to a low-carbon economy in a manner that is mutually supportive and to embark on a Transatlantic Initiative on Sustainable Trade. Continued cooperation on investment screening and on export controls, including as regards sanction-related restrictions of exports to Russia by intensifying information exchange was also agreed. The EU and US decided to continue work to facilitate transatlantic trade giving impetus to expansion of existing mutual recognition agreements for marine equipment and the pharmaceutical sector, explore sectorial conformity assessment for example in the area of machinery or promote the use of digital tools to facilitate bilateral trade and investment. The EU and US will also continue on non-market economic policies and practices and on shared concerns as regards economic coercion. In the area of technology, the TTC presented a joint roadmap to develop common tools and standards for trustworthy artificial intelligence, launched cooperation on quantum and tech for public good, agreed on an early warning mechanism and increased transparency commitments for public support in the semiconductor sector and announced digital initiative projects with the partner countries Kenya and Jamaica.

3.65. On 31 October 2021, as demonstration of renewed trust, the EU and the US jointly announced their intention to agree on a **Global Arrangement on Sustainable Steel and Aluminium (GSA)**. The parties also agreed to pause the WTO disputes they initiated against each other regarding the US Section 232 measures (DS548) and the EU's additional duties (DS559) respectively. The US unilaterally suspended its application of the Section 232 duties with respect to the EU, however quantitatively restricting duty-free imports of EU steel and aluminium based on historical volumes. In parallel, the EU decided to suspend its commensurate rebalancing measures.

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[12] Viewed at: https://www.consilium.europa.eu/media/50758/eu-us-summit-joint-statement-15-june-final-final.pdf.

[13] Viewed at: https://ec.europa.eu/futurium/en.html.

[14] Viewed at: https://circabc.europa.eu/ui/group/09242a36-a438-40fd-a7af-fe32e36cbd0e/library/14bf0332-62ee-411b-8c74-bea38cd79efb/details.

3.66. The aim of the GSA is to address shared challenges in the global steel and aluminium sector, stemming from global non-market excess capacity as well as the carbon intensity of the industries. The GSA is intended to become a multilateral effort and is open to interested countries that share the commitment of the EU and the US to restore market orientation and reduce trade in carbon-intensive steel and aluminium products.

3.67. On 25 April 2022, India's Prime Minister Modi and Commission President von der Leyen agreed to establish an **EU-India Trade and Technology Council (TTC)** to provide political steer on strategic issues at the nexus of trade, trusted technology and security, and to deepen their bilateral coordination in these fields.[15] The aim is to launch the TTC in the run-up to the next EU-India Summit.

3.68. In its "Strategy for Cooperation with the Indo-Pacific", the EU announced the intention to develop **Digital Partnerships** with Japan, the Republic of Korea and Singapore. The Partnerships are flexible instruments going beyond dialogue and exchange of information in order to create a collaboration vehicle to deliver concrete deliverables, such as collaboration in the field of Research & Innovation, regulatory cooperation and mechanisms for collaboration in international fora.

3.69. Key topics included in the scope of each Partnership comprise: semiconductors supply chain resilience; 5G/6G; cybersecurity; platform, data and AI regulation; digital trade; digital identity and digital signatures; closing the digital skills gap and digital inclusion.

3.70. The EU-Japan Digital Partnership was launched at the EU-Japan Summit on 12 May 2022 and now both sides are working on its implementation. Priority deliverables in the implementation phase include Semi-conductors, 5G/6G, Data Free Flow with Trust (DFFT), and the Far North Fiber (FNF) undersea cable.

3.71. The Digital Partnership with the Republic of Korea was signed on 28 November, and the one with Singapore on 1 February 2023.

3.72. The Digital Partnerships have non-binding Digital Trade Principles as a key deliverable. The Digital Trade Principles with the Republic of Korea were signed on 30 November 2022, and the one with Singapore on 31 January 2023. The Digital Trade Principles with Japan are expected to be adopted in the near future.

3.73. Canada and the EU have taken a further step in the implementation of the Comprehensive Economic and Trade Agreement (CETA). Negotiations on a **mutual recognition agreement for the professional qualifications of architects** have been successfully concluded in March 2022, making this the first ever such agreement on professional qualifications negotiated by the EU. Following its adoption and entry into force, architects from the EU and Canada, who meet the criteria set out in the agreement, will be able to have their qualifications recognised and thus supply their services in the other Party's territory more easily.

3.74. **The pan-Euro-Mediterranean (PEM) Convention on rules of origin** establishes common rules of origin (RoO) among the countries in the PEM zone in order to facilitate trade and the integration of supply chains within the area. In the context of fast-moving trade relations and evolving world economies, the current rules of origin are outdated, and hence need to be revised and modernised.

3.75. In the context of the revision of the PEM Convention, the EU and a majority of PEM Contracting parties decided to start applying the new, modernised rules of origin in advance (the so-called transitional rules), pending the adoption and entry into force of the revised PEM Convention.

[15] Following preparatory discussions with the Indian authorities, the EU-India TTC foresees the setting up of three Working Groups (WGs), namely: WG1 on Strategic Technologies, Digital Governance and Digital Connectivity; WG2 on Green and Clean Energy Technologies; and WG3 on Trade, Investment and Resilient Value Chains.

4 TRADE AND DEVELOPMENT

4.1. Besides active involvement on development in the WTO and in bilateral trade cooperation, the EU also deploys autonomous trade and development policy tools with the objective of fulfilling its political commitment to support sustainable development globally, as reflected in the implementation of the United Nations (UN) Agenda 2030 for Sustainable Development and Sustainable Development Goals (SDGs) – to which all WTO members have committed.

4.1 Supporting inclusive growth in developing countries

4.2. At unilateral level, the EU's **Generalised Scheme of Preferences** (GSP) removes import duties for products coming into the EU market from vulnerable developing countries. Under the standard GSP arrangement, the EU currently grants partial or full tariff reductions on around 66% of tariff lines to 11 countries. The **Special Incentive Arrangement for Sustainable Development and Good Governance** (GSP+) grants mostly duty-free treatment to essentially the same 66% of tariff lines after application and a positive assessment by the EU. In 2022 there are eight GSP+ beneficiaries. The **"Everything But Arms"** (EBA) arrangement under the EU's GSP gives Least Developed Countries (LDCs) tariff-free, quota-free access to the EU market for all products except arms and ammunition. 46 LDCs benefit from the EU's EBA in 2022; in 2021 over EUR 22 billion of imports into the EU from LDCs used EBA preferences, or 66% of all goods imported from LDCs.

4.3. Under the EU's current GSP Regulation, all GSP beneficiary countries (including EBA beneficiaries) have to respect the principles of 15 core conventions on human and labour rights. In addition, the GSP+ arrangement requires countries to fulfil, ratify and effectively implement a total of 27 international conventions covering core human and labour rights, environmental protection, and good governance. A central part of the EU's approach to GSP is to carefully monitor the beneficiary countries' respect of these conditionalities. In case of concerns in this respect, the EU engages with the relevant beneficiary countries, and can as a last resort withdraw the preferences. The EU reported on the implementation of the scheme in 2020[16] and will publish a new report in 2023.

4.4. The EU GSP is undergoing a review since the current Regulation expires on 31 December 2023. The review aims to maintain the key features of the current scheme, building on its success as evidenced in a 2018 independent mid-term evaluation and in the impact assessment for the Commission proposal for GSP post 2023. Targeted improvements aim to better respond to the evolving needs of developing countries and reinforce the scheme's social and environmental impact. A new regulation was proposed by the European Commission on 22 September 2021.[17] The proposal is currently before the EU legislator, and is to be adopted in time to provide predictability and stability to beneficiaries and business.

4.2 Aid for Trade

4.5. To support developing countries' integration into the world economy, poverty reduction and sustainable development, the EU views **Aid for Trade** (AfT) as a crucial tool. EU and Member States' AfT is based on the 2017 joint AfT Strategy, with five overarching priorities: (i) reducing fragmentation, integrating development tools, increasing leverage of AfT through better informed and coordinated delivery; (ii) scaling up impact – making the most of instruments across EU external policies, (iii) stronger focus on social and environmental sustainability and inclusive economic growth; (iv) a more differentiated approach to countries, with increased focus on LDCs; and (v) improved monitoring and reporting. The most recent EU Aid for Trade Progress Report (2022) was launched in December 2022.[18] The reporting is also informing the EU's participation in the monitoring of the AfT initiative globally. During the eight Global Review of AfT at the WTO in

[16] European Commission (EU), Joint Report to the European Parliament and the Council on the Generalised Scheme of Preferences covering the period 2018-2019, JOIN/2020/3 final.

[17] Viewed at: https://policy.trade.ec.europa.eu/news/commission-proposes-new-eu-generalised-scheme-preferences-promote-sustainable-development-low-income-2021-09-22_en.

[18] Viewed at: https://op.europa.eu/en/publication-detail/-/publication/c2814529-8fce-11ed-b508-01aa75ed71a1/language-en.

July 2022, the European Commission co-hosted two events in addition to those organised by EU Member States and with speakers in additional sessions.

4.6. The EU and its Member States collectively constitute the world's largest AfT donor, accounting for around 40% of global AfT, with collective commitments amounting to EUR 22.9 billion in 2020 (the latest year for which there is data, and an increase of 22% from 2019). 13% of the EU's AfT went to LDCs. Following the integration of the European Green Deal, EU AfT targeting climate change adaptation or mitigation has been steadily growing over the decade, tripling in real terms between 2011 and 2020, with almost half of EU AfT addressing climate change by 2020. EU AfT addressing environmental issues more than doubled over the same period.

4.7. EU AfT is a tool to deliver on the Global Gateway.[19] Launched in December 2021 it is a new strategy to mobilize investments totalling EUR 300 billion over the period 2021-27. Accordingly, EU AfT is more and more driven by innovative de-risking tools to catalyse private sector investment. This is done primarily through blending operations (i.e., a combination of EU grants with loans or equity from public and private financiers) and financial guarantees. In line with the EU's geopolitical objectives and commitment to the 2030 Agenda, the Global Gateway strategy aims to boost smart, clean and secure investments in digital, energy and transport, and to strengthen health, education and research systems across the world to underpin a lasting global recovery while promoting universal values and high standards, good governance and transparency.

5 SUSTAINABILTY

5.1 The EU's actions on climate change and environmental protection

5.1. In late 2019, the European Commission tabled an agenda to become the world's first climate neutral continent by 2050. The **European Green Deal**, which is based on that target, is a comprehensive plan to make the EU's economy and society ready for a climate neutral future.

5.2. The European Green Deal seeks to transform the EU into a modern, resource-efficient and competitive economy where there are no net emissions of greenhouse gases by 2050, economic growth is decoupled from resource use, and no one is left behind in what will be a just transition.

5.3. The European Green Deal provides a comprehensive set of actions to reach these goals, in the form of strategies, regulations, standards in the areas of climate, energy, transport, agriculture, industry, environment and oceans, finance and regional development, research and innovation[20] (see below in section 5.1.1 an overview of the actions).

5.4. The EU is aware that if it wants to pursue global challenges such as combating climate change, biodiversity loss, pollution, or promoting more sustainable production and consumption, it needs to increase cooperation with third countries. In the cases where the European Green Deal policies have an external dimension, the EU is engaging with its partners. The EU makes sure that its external assistance actively promotes effective and ambitious climate and environment action and integration. The EU designs its climate and environmental policies in line with the WTO rules and provides a full transparency on EU climate- and environmental measures to the EU trading partners bilaterally, including in the context of trade agreements, and in the WTO. The EU has made numerous presentations on the policies with potential trade impacts in the WTO Committee on Trade and Environment, and other committees, and will continue this engagement in the future. The objective of this has been early engagement with partners to understand any potential concerns and see how they could be addressed in the policy design as well as to avoid any adverse implications or impacts for international trade in goods affected by EU legislation, while at the same time improving the understanding of the applicable rules on the EU market. The EU intends to further pursue dialogue and cooperation regarding the implementation of the EU's autonomous sustainability instruments.

[19] Viewed at: https://ec.europa.eu/info/strategy/priorities-2019-2024/stronger-europe-world/global-gateway_en.

[20] Viewed at: https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en#thematicareas.

5.1.1 Overview of the actions on climate change and environmental protection

5.5. The adoption of the **Climate Law** on 9 July 2021 sets a legally binding target for the EU to reach net zero greenhouse gas emissions by 2050 as well as to reduce net greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels. This allowed the EU to adopt and submit to the United Nations Framework Convention on Climate Change (UNFCCC) in December 2020 an updated and significantly enhanced Nationally Determined Contribution in line with the Paris Agreement, confirming Europe's commitment to lead in global climate action.

5.6. On 14 July 2021, the Commission proposed a package[21] of climate, energy and transport legislation, the **"Fit for 55"** package, to accomplish this transformational change across the EU's economy and society – matched by commitment to a socially fair transition, which leaves no one behind.

5.7. **The Carbon Border Adjustment Mechanism (CBAM)**[22] is a climate measure aimed at decreasing global GHG emissions by preventing the risk of carbon leakage and by supporting increased ambition on climate mitigation, while ensuring WTO compatibility. The CBAM will equalise the price of carbon between domestic products and imports and ensure that the EU's climate objectives are not undermined by production relocating to countries with less ambitious climate policies.

5.8. **The EU Emissions Trading System** puts a price on carbon and lowers the cap on emissions from certain economic sectors every year. The European Commission has proposed[23] to lower the overall emission cap even further and increase its annual rate of reduction, to phase out free emission allowances for aviation and align with the global Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) and to include shipping emissions in the EU ETS. To address the lack of emissions reductions in road transport and buildings, a separate new emissions trading system is set up for fuel distribution for road transport and buildings.

5.9. Both proposals have been preliminarily agreed in December 2022 and must now be formally adopted by the co-legislators: the European Parliament and the Council.

5.10. The 2030 legally binding priority objectives set out in the 8th Environment Action Programme ("8th EAP")[24] include the significant reduction of key environmental and climate pressures related to the EU's production and consumption, including, among others, in the area of trade.

5.11. In May 2020 the EU adopted its **Biodiversity Strategy for 2030**.[25] The strategy is a comprehensive, ambitious and long-term plan to protect nature and reverse the degradation of ecosystems. A key element of the Strategy is the proposal for a Nature Restoration Law[26] adopted by the European Commission on 22 June 2022.

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[21] This policy package is based on a comprehensive set of impact assessments and includes:

- application of emissions trading to new sectors (shipping, transport and buildings) and a strengthening of the existing EU Emissions Trading System (EU ETS);
- a Social Climate Fund, to ensure that the green transition leaves no-one behind
- updating Member State emissions reduction targets (Effort Sharing Regulation) in line with the 2030 climate target plan;
- increased targets for renewable energy and for energy efficiency;
- a faster roll-out of low emission transport modes (including through an obligation that all new cars and vans sold in the EU from 1 January 2035 need to be zero-emission vehicles) and the infrastructure and fuels to support them;
- an alignment of taxation policies with the European Green Deal objectives;
- measures to better prevent carbon leakage in the form of a carbon border adjustment mechanism (CBAM);
- and tools to preserve and grow natural carbon sinks, with the aim of a climate-neutral land and agriculture sector by 2035 (Land Use, Land-Use Change and Forestry Regulation).

[22] European Commission (EU), Proposal for a Regulation on the European Parliament and the Council establishing a carbon border adjustment mechanism, COM(2021) 564 final.

[23] Decision (EU) 2022/591, *OJ L 114*, 12/4/2022, p. 22.

[24] Decision (EU) 2022/591, *OJ L 114*, 12/4/2022, p. 22.

[25] COM(2020) 380 final.

[26] COM(2022) 304 final [Nature restoration law (europa.eu)].

5.12. On 6 December 2022, the European Parliament and the Council reached a provisional political agreement on an EU Regulation on **deforestation**[27], paving the way for the final adoption of the regulation in early 2023. It aims to curb EU-driven deforestation and forest degradation. By promoting the consumption of "deforestation-free" products and reducing the EU's impact on global deforestation and forest degradation, the new rules will bring down greenhouse gas emissions and global biodiversity loss and minimise consumption, and therefore decrease the trade of products coming from supply chains associated with deforestation or forest degradation, while increasing the trade of sustainable products. The proposal is part of a broader plan of actions to tackle deforestation and forest degradation first outlined in the 2019 Commission Communication on Stepping up EU Action to Protect and Restore the World's Forests.[28]

5.13. Furthermore, in the area of fighting pollution, the European Commission adopted the **Zero Pollution Action Plan** in May 2021.[29] The main objective is to provide a compass for including pollution prevention in all relevant EU policies, including trade policies and free trade agreements, and to reduce air, water and soil pollution to levels no longer considered harmful to health and natural ecosystems and that respect the boundaries our planet can cope with, thus creating a toxic-free environment.

5.14. In the area of waste, in November 2021, the Commission adopted a proposal for a new regulation on **Waste Shipment**[30], which aims to ensure that the EU does not export its waste challenges to third countries and supports a clean and circular economy.

5.15. The new **Circular Economy Action Plan** (CEAP)[31] was adopted in 2020 and aims to accelerate the transformational change required by the European Green Deal.[32] Under the new CEAP, the European Commission adopted in March and November 2022, two packages of initiatives to make sustainable products the norm on the EU market.[33] The cornerstone of the measures is the legislative proposal for a Regulation on Ecodesign for Sustainable Products (ESPR)[34] that aims to better cover product circularity issues such as durability and reparability, and to address the carbon- and environmental footprints of products, amongst other aspects.

5.1.2 Sustainable food systems

5.16. The **Farm to Fork** (F2F) **Strategy** adopted in May 2020 is the EU's contribution to the global transition towards sustainable food systems. It aims to ensure food security, nutrition and public health, access to sufficient, safe, nutritious, sustainable food for all, and this while having a neutral or positive environmental impact. To achieve the transition, the Strategy's action plan sets out both regulatory and non-regulatory initiatives, including the EU Code of Conduct on responsible food business and marketing practices[35] that entered into force in July 2021.

5.17. The Commission is also carrying out preparatory work concerning the flagship initiative of the F2F strategy: the framework legislation for a Union sustainable food system. It will aim at accelerating and facilitating the transition to sustainability by establishing new foundations for future

[27] European Commission, Proposal for a Regulation of the European Parliament and of The Council on the making available on the Union market as well as export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010, COM(2021) 706 final.

[28] European Commission, *Stepping up EU Action to Protect and Restore the World's Forests*, COM(2019) 352.

[29] European Commission, Pathway to a Healthy Planet for All EU Action Plan: 'Towards Zero Pollution for Air, Water and Soil', COM(2021) 400.

[30] European Commission, Proposal for a Regulation of the European Parliament and of The Council on shipments of waste and amending Regulations (EU) No 1257/2013 and (EU) No 2020/1056, COM(2021) 709.

[31] European Commission, *A new Circular Economy Action Plan For a cleaner and more competitive Europe*, COM(2020) 98 final.

[32] European Commission, *Closing the loop – An EU action plan for the Circular Economy*, COM(2015) 614 final.

[33] European Commission, *Making sustainable products the norm*, COM(2022) 140 final.

[34] European Commission, *Proposal for Proposal for a Regulation of the European Parliament and of The Council establishing a framework for setting ecodesign requirements for sustainable products and repealing Directive 2009/125/EC*, COM(2022) 142 final.

[35] Viewed at: https://food.ec.europa.eu/horizontal-topics/farm-fork-strategy/sustainable-food-processing/code-conduct_en.

food policies. The transition towards sustainable food systems has to be supported by sanitary and phytosanitary requirements responding to key challenges.

5.18. The draft regulation on lowering the maximum residue levels (MRLs) for the two neonicotinoid substances clothianidin and thiamethoxam, is the first regulation implementing the F2F Strategy[36] on imported food in relation to pesticides residues. The environmental aspects targeted by this regulation relate to the protection of pollinators. This is an issue of global concern, which goes beyond national boundaries and cannot be solved through actions at EU level alone. The draft regulation is lowering the maximum residue levels (MRLs) for the two neonicotinoid substances clothianidin and thiamethoxam, known to contribute significantly to the decline of pollinator populations because of their intrinsic properties that lead to adverse effects on pollinators independent of where they are used geographically.[37,38] The regulation includes trade facilitating provisions, mainly to postpone the application date of the regulation to 36 months after entry into force (instead of 6 months, which is the standard period foreseen by WTO rules) and to allow products placed on the market before the application date to remain on the market until the end of their shelf life.

5.19. The implementing measures for the Regulation on Veterinary Medicinal Products adopted during the previous review period will strengthen the EU action in fighting antimicrobial resistance (AMR) and promote a prudent and responsible use of antimicrobials. These measures have been supplemented recently by the Delegated Regulation setting the criteria to designate antimicrobials to be reserved for treatment of certain infections in humans[39], as well as an Implementing Regulation listing the designated antimicrobials to be reserved for treatment of certain infections in humans.[40] Furthermore, the Regulation on Official Controls was amended to ensure that the single framework for official controls is also applicable to the relevant provision of the Veterinary Medicinal Products Regulation.

5.1.3 Decarbonising Energy and Sustainable Transport

5.20. Since 2019, the energy policy and legal framework of the EU has significantly evolved. These were partially driven by the European Green Deal and the Fit for 55 legislative proposals. Another driver was Russia's war of aggression against Ukraine, which significantly impacted the EU's energy market, including security of supply.

5.21. The Fit for 55 package (see section 5.1.1) of proposals sets ambitious targets for the energy sector across the board, including on renewable energy[41], energy efficiency[42] and the energy performance of buildings.[43] Other ongoing legislative initiatives include new rules[44] to reshape the market design for gases, in particular biomethane and hydrogen, as well as new requirements relating to methane emissions reduction[45] in the energy sector.

[36] European Commission, A Farm to Fork Strategy, COM(2020) 381 final, p. 18: the Commission will take into account environmental aspects when assessing requests for import tolerances for pesticide substances no longer approved in the EU, while respecting WTO standards and obligations.

[37] EFSA Journal 2018;16(2):5179.

[38] EFSA Journal 2018;16(2):5177.

[39] Regulation (EU) 2021/1760, *OJ L 353*, 6/10/2021, p. 1.

[40] Regulation (EU) 2022/1255, *OJ L 191*, 20/7/2022, p. 58.

[41] European Commission, Proposal for a Directive of the European Parliament and the Council amending Directive (EU) 2018/2001 of the European Parliament and of the Council, Regulation (EU) 2018/1999 of the European Parliament and of the Council and Directive 98/70/EC of the European Parliament and of the Council as regards the promotion of energy from renewable sources, and repealing Council Directive (EU) 2015/652, COM(2021) 557 final.

[42] European Commission, Proposal for a Directive of the European Parliament and the Council on Energy Efficiency recast), COM(2021) 558 final.

[43] European Commission, Proposal for a Directive of the European Parliament and the Council on the energy performance of buildings, COM(2021) 802 final.

[44] European Commission, Proposal for a Directive of the European Parliament and the Council on the internal markets for renewable and natural gases and for hydrogen (recast), COM(2021) 804 final.

[45] European Commission, Proposal for a Directive of the European Parliament and the Council on methane emissions reduction in the energy sector and amending Regulation (EU) 2019/942, COM(2021) 805 final.

5.22. A revised regulation on guidelines for trans-European energy infrastructure[46] has also been proposed, which enables the identification of the cross-border energy infrastructure projects and related investments across the Union and with third countries that are necessary for the energy transition and achievement of the climate targets.

5.23. The proposal for the **REPowerEU Plan**[47] includes complementary short, mid and long-term initiatives in view of phasing out the use in the EU of all Russian fossil fuels as soon as possible. Measures include those relating to gas storage[48], reduction of demand for gas[49] and electricity.[50] In addition, it proposes to increase the EU's renewable energy and energy efficiency targets and to accelerate the permitting procedures for renewable energy deployment under the 'Fit for 55' proposals.

5.24. In the area of transport, a **Revised Clean Vehicles Directive** was adopted in June 2019 to promote clean mobility solutions in public procurement tenders, providing a boost to the demand and further deployment of low- and zero-emission vehicles. The directive defines "clean vehicles" and sets national targets for their public procurement. It applies to different means of public procurement, including purchase, lease, rent and relevant services contracts. In December 2020, the Commission adopted the **Sustainable and Smart Mobility Strategy**, setting the vision and announcing measures to reduce transport emissions by 90% by 2050 in line with the European Green Deal goals.

5.25. Under the Fit for 55 Package, several legislative initiatives were proposed in July 2021 on the decarbonisation of transport:

- A proposal for a new Alternative Fuels Infrastructure Regulation[51] sets binding national minimum targets for the rollout of certain alternative fuels infrastructure on roads, in ports and in airports. A revision of the CO2 standards for cars[52] and vans setting a trajectory of targeted reduction of emissions with the final aim that by 2035, all new cars and vans will need to be zero-emission.

- The revision of the EU ETS, including its extension to shipping and establishing a separate emission trading system for road transport[53], as well as a gradual phase out of the free emissions allowances in the aviation sector.[54]

- A revision of Energy Taxation Directive[55] removes the mandatory tax exemptions on aviation and maritime fuels.

- A new legislative proposal on ReFuelEU Aviation[56] that aims to decarbonise the aviation sector by mandating supply of jet fuels blended with minimum shares of sustainable aviation fuels

[46] Regulation (EU) 2022/869, *OJ L 152*, 3/6/2022, p. 45.
[47] European Commission, REPowerEU Plan, COM(2022) 230 final.
[48] Regulation (EU) 2022/1032, *OJ L 173*, 30/6/2022, p. 17.
[49] Regulation (EU) 2022/1369, OJ L 206, 8/8/2022, p. 1.
[50] Regulation (EU) 2022/1854, OJ L 261I, 7/10/2022, p. 1.
[51] European Commission, Proposal for a Regulation of the European Parliament and the Council on the deployment of alternative fuels infrastructure, and repealing Directive 2014/94/EU of the European Parliament and of the Council, COM(2021) 559 final.
[52] European Commission, Proposal for a Regulation of the European Parliament and the Council amending Regulation (EU) 2019/631 as regards strengthening the CO2 emission performance standards for new passenger cars and new light commercial vehicles in line with the Union's increased climate ambition, COM(2021) 556 final.
[53] European Commission, Proposal for a Directive of the European Parliament and the Council amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757, COM(2021) 551 final.
[54] European Commission, Proposal for a Directive of the European Parliament and the Council amending Directive 2003/87/EC as regards aviation's contribution to the Union's economy-wide emission reduction target and appropriately implementing a global market-based measure, COM(2021) 552 final.
[55] European Commission, Proposal for Council Directive on restructuring the Union framework for the taxation of energy products and electricity, COM(2021)563 final.
[56] European Commission, Proposal for a Regulation of the European Parliament and the Council on ensuring a level playing field for sustainable air transport, COM(2021) 561 final.

(SAF) and uptake of fuels by airlines departing from Union airports. The FuelEU Maritime[57] legislative proposal sets the objective to promote the uptake in the use of renewable, low-carbon fuels and low carbon-intensive energy options, in maritime transport, including additional requirements for zero emissions at berth, for both containerships and passenger ships.

5.2 Sustainability, fairness and inclusiveness

5.2.1 Protecting human rights and promoting labour rights

5.26. EU trade policy helps to promote and protect human rights around the world. The EU's broader set of policies and actions in this respect includes various trade policy instruments such as the EU's unilateral trade preferences (GSP) (see section 4.1), bilateral and regional free trade agreements and trade impact assessments and evaluations.

5.27. Under the GSP, the EU monitors respect for the principles of core international conventions on human rights by beneficiary countries. In September 2021, the Commission adopted the legislative proposal for a new EU's GSP Regulation to apply as from January 2024, reinforcing support for the promotion of international standards in GSP beneficiary countries, including by adding new international human rights instruments and by rendering the export of goods made by internationally prohibited child labour and by forced labour a ground to possibly withdraw trade preferences.

5.28. The EU's free trade agreements are typically linked to the human rights "essential elements" clause contained in the political framework agreements with these countries, enabling the parties to take appropriate measures in case of breaches by the other party. The European Commission conducts human rights impact assessments as a key element of its sustainability impact assessments of the EU's ongoing trade negotiations, including through ex post evaluations of the EU's existing trade agreements.

5.29. In July 2021, the European Commission and the European External Action Service published guidance on due diligence to assist EU businesses in taking appropriate measures to address the risk of forced labour in their operations and supply chains, in line with international standards.

5.30. In September 2022, a legislative proposal was adopted to prohibit products made with forced labour to be placed on or exported from the EU market.[58] The proposal covers all products, namely those made in the EU for domestic consumption and exports, and imported goods, without targeting specific products, companies, industries or geographies. The proposal builds on internationally agreed definitions and standards. It underlines the importance of close cooperation with global partners. Once the proposal is adopted by the EU co-legislators, national authorities will be empowered to withdraw from the EU market products made with forced labour, following an investigation. According to the proposal, EU customs authorities will identify and stop products made with forced labour at EU borders. The proposal is now with the EU co-legislators, the European Parliament and the Council.

5.31. On 23 February 2022, the Commission adopted a legislative proposal for a Directive on corporate sustainability due diligence. The aim of this Directive is to foster sustainable and responsible corporate behaviour and to anchor human rights and environmental considerations in companies' operations and corporate governance. The proposal is still with the EU's legislature, and the new rules once adopted will ensure that businesses address adverse impacts of their actions, including in their value chains inside and outside Europe.

5.32. Regulation (EU) 2017/821 (the so-called Conflict Minerals Regulation)[59] lays down supply chain due diligence obligations for EU importers of Tin, Tantalum, Tungsten and Gold (3TG). It was adopted in 2017 and its operational due diligence requirements apply since 1 January 2021. It aims

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[57] European Commission, Proposal for a Regulation of the European Parliament and the Council on the use of renewable and low-carbon fuels in maritime transport and amending Directive 2009/16/EC, COM(2021) 562 final.

[58] European Commission, Proposal for a Regulation of the European Parliament and of the Council on prohibiting products made with forced labour on the Union market, COM(2022) 453 final.

[59] Regulation (EU) 2017/821, *OJ L 130*, 19/5/2017, p. 1.

to ensure that EU imports of 3TG do not contribute to armed conflict and associated human rights abuses along the supply chain. At the same time, the regulation aims to promote sustainable development in the countries concerned, by encouraging responsible sourcing also from conflict-affected and high-risk areas with the help of the necessary due diligence safeguards.

5.33. In the Communication on Decent Work Worldwide[60] of February 2022 the EU reaffirmed its commitment to champion decent work in cooperation with other countries. The EU promotes decent work across all sectors and policy areas in line with a comprehensive approach that addresses workers in domestic markets, in third countries and in global supply chains (see section 5.2.1).

5.2.2 Promoting sustainability

5.34. All modern EU trade agreements include Trade and Sustainable Development (TSD) chapters with a broad set of mutually agreed commitments based on international labour and environmental standards. In June 2021, the Commission launched an in-depth review with the objective of strengthening the ability of trade agreements as a whole – including their TSD chapters – to champion sustainable trade, in cooperation with trade partners and in concert with other relevant EU policy instruments, including the European Green Deal. The Communication "The power of trade partnerships: together for green and just economic growth"[61] of 22 June 2022 sets out this enhanced approach to sustainability in the EU trade agreements.[62] The Communication identifies policy priorities, such as results-oriented and priority-based engagement with partner countries and more participation and support for civil society; and 20 key action points, which will further enhance the effectiveness of the engagement-based approach to TSD, grounded in the international framework and standards, with stronger implementation and enforcement.

5.35. In addition to TSD chapters, the sustainability dimension will continue to be reflected also in other aspects of the EU's trade and investment agreements. They support the diffusion of clean and more efficient production methods and technologies, including promoting trade in green goods and services, supporting the transition to climate neutral economies, or the transition to sustainable food systems by proposing to the FTAs partners to include a new Sustainable Food Systems chapter.

5.2.3 Small and Medium Sized enterprises (SMEs)

5.36. The EU actively supports the participation of SMEs in international trade and in the EU's internal market. SMEs are the backbone of the EU economy, providing jobs and growth opportunities. Out of the 675,000 EU companies, who export outside the EU, 94% were SMEs and their exports amounted to 31% of the total value of EU exports in 2020.[63]

5.37. SMEs need a transparent, predictable and more certain global environment to make the most of trade opportunities. Thus, the EU encourages raising awareness and promoting the use of information platforms, such as the European Commission's Access2Markets platform[64], to help SMEs understand and reap the benefits of international trade and of EU trade agreements.

5.38. New generation EU trade agreements now include dedicated SME chapters[65] to help SMEs grow their business with and in those foreign markets. These dedicated SME chapters are meant to raise awareness and provide for a number of practical steps further to increase transparency, notably through information sharing. In addition, they provide for dedicated SME contact points tasked with

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[60] European Commission, *Decent work worldwide for a global just transition and a sustainable recovery*, COM(2022) 66 final.

[61] European Commission, *The power of trade partnership: together for green and just economic growth*, COM(2022) 409 final.

[62] The Communication was supported by the Council as well as the European Parliament.

[63] Eurostat TEC database (tables ext_tec01, ext_tec03, ext_tec10). Viewed at: https://ec.europa.eu/eurostat/databrowser/view/ext_tec01/default/table?lang=en; https://ec.europa.eu/eurostat/databrowser/view/ext_tec03/default/table?lang=en; and https://ec.europa.eu/eurostat/databrowser/view/ext_tec10/default/table?lang=en.

[64] Viewed at: https://trade.ec.europa.eu/access-to-markets/en/home.

[65] There EU trade agreements in force with Japan and the UK include a dedicated SME chapter while the agreement with Canada includes a joint SME Recommendation which content-wise mirrors the provisions in SME chapters. There is also a dense pipeline of future EU trade agreements with New Zealand, Mercosur, Chile, Mexico, Australia, Indonesia and India that would include an SME provisions.

ensuring that SME interests and perspectives are reflected in the implementation of the respective agreements.

5.39. The Commission adopted on 10 March 2020 a new SME strategy[66], which builds on policy initiatives, such as the 2008 Small Business Act and the Competitiveness for Small and Medium Enterprises (COSME) programme.[67] The SME Performance Review[68] is one of the main tools that the European Commission uses to monitor the progress in the implementation of the SME strategy and the EU's Small Business Act (SBA). The report includes information about the performances of European SMEs and their size and structure.

5.40. The EU also has several funding programmes targeted at SMEs, for example:

- **Single Market Programme (SMP)**: The EU has been implementing the Single Market Programme (SMP)[69] which has a dedicated SME pillar that focuses on strengthening SMEs' competitiveness and sustainability. This SME Pillar co-finances various actions to help European businesses with international expansion, including the Enterprise Europe Network (EEN) that provides advice and partnership services to help businesses innovate and grow on an international scale. EEN is the world's largest support network for SMEs with international ambitions. Inter alia, the SME Pillar provides support for the EU-Japan Center for Industrial Co-operation and for Joint Cluster Initiatives that help to boost the resilience of industrial ecosystems and strengthen their access to global supply and value chains.

- **InvestEU**: The InvestEU SME Window[70] provides SMEs access to and availability of debt and equity financing, running from 2021 to 2027. The Single Market Programme and InvestEU SME Window build on the previous COSME Programme running from 2014-2020.

5.41. The EU is preparing a SME Relief Package to help SMEs address, *inter alia*, issues related to supply chains bottlenecks. It will include the revision of the Late Payment Directive, measures to improve doing business in the Single Market and facilitating access to skills and finance.

5.42. The EU financed four international Intellectual Property SME Helpdesks (China, Latin America, South-East Asia, India) which assist EU SMEs and beneficiaries of EU-funded programmes by providing information and advice on intellectual property and related matters.

5.2.4 Transparency

5.43. Being a transparent trade authority is an important priority for the European Commission. Transparency is essential to ensure inclusiveness, legitimacy and accountability and facilitates a mutual understanding of policy by enhancing public trust. A pro-active transparency policy is maintained through two main work strands: the publication of relevant documents and the systematic engagement with civil society. Draft negotiating directives, reports of negotiating rounds, initial EU text proposals, reports of committees and dialogues as well as many other relevant documents are published. Regular public stakeholder events that include representatives of non-governmental organisations, trade unions, business organisations and other groups, is part of the EU's transparency measures.

5.2.5 Gender equality and women's economic empowerment

5.44. The EU is committed to promoting gender equality, including through trade policy. The 2021 Trade Policy Communication indicates that the EU works with partners to ensure adherence to universal values, including the promotion and advancement of gender equality.

[66] European Commission, *An SME Strategy for a sustainable and digital Europe*, COM(2020) 103 final.
[67] The actions of the strategy are focused on three pillars: 1) supporting SMEs in their green and digital transition, 2) reducing regulatory burden and improving market access and 3) improving access to finance.
[68] Viewed at: https://single-market-economy.ec.europa.eu/smes/sme-strategy/sme-performance-review_en#paragraph_885; Regulation (EU) 2021/690, *OJ L 153*, 3/5/2021, p. 1.
[69] Regulation (EU) 2021/690, *OJ L 153, 3.5.2021*, pp. 1–47, EUR-Lex - 32021R0690 - EN - EUR-Lex (europa.eu).
[70] Regulation (EU) 2021/523, *OJ L 107*, 26/3/2021, p. 30.

5.45. The EU is supportive of the inclusion of the trade and gender equality dimension in the WTO context. From the outset, the EU has been a strong proponent of the 2017 Buenos Aires Joint Declaration on Trade and Women's Economic Empowerment. The EU has been a member of the informal working group (IWG) on trade and gender in the WTO since its creation in the autumn of 2020. In early 2022, the EU launched a project with the International Trade Centre that looks at applying a gender lens to the work of the WTO. In this context, four webinars have been organised on topics such as e-commerce, trade facilitation, investment facilitation and government procurement.

5.46. EU trade agreements contain commitments related to the implementation of fundamental ILO conventions targeting non-discrimination in employment (including the ratification and implementation of ILO Conventions 100 and 111 on equal remuneration and non-discrimination), in a specific chapter on Trade and Sustainable Development (TSD). In June 2022, the EU concluded negotiations for a comprehensive trade agreement with New Zealand that includes TSD Chapter with commitment of the parties to advance relevant UN and ILO conventions advancing women's economic empowerment and gender equality, including promoting cooperation in international fora to advance these objectives. In the modernised EU-Chile Advanced Framework Agreement, politically concluded in December 2022, such commitments are placed in a dedicated Trade and Gender Equality chapter.

5.47. Under the EU's Generalised Scheme of Preferences (GSP), the EU monitors respect by beneficiary countries for the principles of core international conventions on promoting women's rights and gender equality, notably the UN Convention on the Elimination of All Forms of Discrimination against Women the Convention concerning Equal Remuneration of Men and Women Workers for Work of Equal Value, and the Convention concerning Discrimination in Respect of Employment and Occupation.

5.48. The Action Plan on Gender Equality and Women's Empowerment in External Relations 2020–2025 (GAP III), in line with the Gender Equality Strategy 2020-2025, makes the promotion of gender equality a priority of all external policies and actions; offers a roadmap for working together with stakeholders at national, regional and multilateral levels; steps up action in strategic thematic areas; calls for the institutions to lead by example and; ensures the transparency of the results.

6 ENFORCEMENT AND RESPONDING TO TRADE DISTORTIVE PRACTICES

6.1. Implementation and enforcement of trade policy is a key priority for the EU, as set out in the 2021 Trade Policy Communication. In a world of geopolitical, economic and environmental transition, the EU's openness to trade and investment must be coupled with its ability to effectively defend its interests and enforce its rights, notably with a view to ensuring a level playing field both within the EU and globally. This includes our renewed multilateral and bilateral agenda as well as making the best use of existing rules and structures around the newly created Chief Trade Enforcement Officer (CTEO) and closing the gap in our toolbox for dealing with new challenges, including competitive distortions (as well as sustainability and security concerns). To this end, the Foreign Subsidies Regulation (section 6.3) and the International Procurement Instrument (section 6.4) and are now in place.

6.1 Enforcement

6.2. The EU maintains an active trade implementation and enforcement policy and has developed a number of measures and tools to ensure the defence of EU interests and the compliance by third countries with the obligations and commitments they have undertaken vis-à-vis the EU.

6.3. On 24 July 2020, the European Commission created the position of a **Chief Trade Enforcement Officer**[71] who steers and coordinates all EU actions in relation to the implementation and enforcement of the EU's trade policy, both for issues related to market access and for issues of non-compliance with sustainability commitments by the EU's trading partners.

[71] Viewed at: https://policy.trade.ec.europa.eu/enforcement-and-protection/chief-trade-enforcement-officer_en.

6.4. On 13 October 2020, the European Commission launched the **Access2Markets**[72] online portal to help in particular SMEs to export goods, services and procurement beyond the EU's borders. It also facilitates trade for economic operators in third countries trading with the EU or wanting to do so. It does so by providing information on product and country specific tariffs, taxes, import formalities, rules of origin, statistics or trade barriers. The portal responded to requests from stakeholders to explain EU trade agreements and their many advantages in detail. It serves both companies that already trade internationally and those that are only starting to explore opportunities in foreign markets.

6.5. On 16 November 2020, the European Commission launched the **Single Entry Point** (SEP)[73] as a first point of contact for EU-based stakeholders wishing to launch complaints on potential trade barriers or breaches by trading partners of their sustainability commitments. The SEP aims to ensure effective coordination and follow-up to the trade-related complaints brought by EU stakeholders.

6.6. In February 2021, the EU adopted legislation to upgrade its trade enforcement rules, in particular to protect its interests and rights in the WTO and under bilateral trade agreements when the resolution of adjudicative dispute settlement is blocked despite the EU's good faith effort to have dispute settlement procedures function.[74] This came at a time when dispute settlement in the WTO was and still remains blocked despite the EU's (together with a large number of other WTO members) good faith effort to restore a functioning dispute settlement procedure. The revised Regulation enables the EU, in the case of a WTO dispute, to enforce its rights as upheld by a panel if obtaining a binding final ruling is not possible because the appeal of the other party to the dispute cannot be completed and that party does not agree to use interim appeal arbitration.

6.7. The EU continues to put increasing efforts into the implementation and enforcement of commitments made under bilateral trade agreements. On 27 October 2021, the first Annual Report on the Implementation and Enforcement of EU Trade Agreements was published, following the appointment of the CTEO. The report provides an overview of the main activities to ensure effective implementation and enforcement of EU trade agreements and arrangements. The second report was published on 11 October 2022.[75]

6.2 Trade Defence

6.8. While the EU is one of the most open economies in the world, it also believes in fair trade. The EU has continued to stand against unfair and illegal practices and distortive state subsidies, aiming at ensuring a level playing field for its economic operators.

6.9. The European Commission is successfully implementing the changes to the EU's basic anti-dumping and anti-subsidy legislation introduced in December 2017 and June 2018 respectively. This was confirmed in a report of the European Court of Auditors issued in July 2020 publishing the findings of an audit of the EU's application of the trade defence instruments.[76] In 2020 and 2021, the European Commission implemented a number of recommendations in that report which further strengthened the response to the challenges posed by unfairly traded imports, including the treatment of confidential data in investigations, increasing awareness of the instruments among stakeholders as well as improved monitoring of the effectiveness of measures.

6.10. In keeping with its commitment to be firm on unfair trade, the European Commission used its anti-subsidy legislation to tackle increasingly complex unfair subsidy arrangements of third countries, which were harming some EU manufacturing industries.

6.11. In response to the COVID-19 pandemic, new work practices were adopted in 2020 ensuring the European Commission completed investigations within legal time limits, while fully respecting the rights of interested parties and its legal obligations. While there is a gradual return to traditional

[72] Viewed at: Welcome home page | Access2Markets (europa.eu).
[73] Viewed at: https://trade.ec.europa.eu/access-to-markets/en/content/single-entry-point-0.
[74] Regulation (EU) 2021/167, *OJ L 49*, 12/2/2021, p. 1.
[75] Viewed at: https://ec.europa.eu/transparency/documents-register/detail?ref=COM(2022)730&lang=en.
[76] Viewed at: https://www.eca.europa.eu/Lists/ECADocuments/SR20_17/SR_trade_defence_instruments_EN.pdf.

work practices, for some countries the new work practices remain in place due to continued travel restrictions.

6.12. In addition, and in response to the trade-related challenges affecting the steel industry, notably after the introduction of the US Section 232 tariffs on steel, the EU imposed a safeguard measure on imports of certain steel products in February 2019.[77] The objective of this measure was to protect the Union steel industry notably from the negative effects that the trade diversion stemming from US Section 232 would cause, in particular in a context of increasing worldwide overcapacity and of an increase of trade defence and trade restrictive measures in third countries.

6.3 EU State aid control

6.13. Subsidies in the EU are regulated through State aid control managed by the European Commission, and in a way that is fully coherent with the applicable WTO rules. The EU-level regime ensures that subsidies are authorised according to uniform criteria, following an assessment of their necessity, proportionality and effects on trade and competition. As a result, any distortive effects of subsidies are minimised while maximising their positive effects for public policy objectives. In addition, subsidies granted at the EU level, while not subject to the State aid approval process, are designed to follow the same principles.

6.14. Transparency is a key feature of the EU State aid control. State aid decisions amounts, beneficiaries, objectives and aid instruments are collected and published centrally in the EU State aid scoreboard.[78] Several EU State aid guidelines have been reviewed and updated in 2020-2021. The periodical updates are intended to ensure that the guidelines continue to reflect economic and policy developments, such as the EU Green Deal. Specific temporary rules were in force in 2020-2022 to address the economic consequences of the COVID-19 outbreak. From 2022, there are temporary rules in place to enable Member States to support the economy in the context of Russia's war of aggression against Ukraine.

6.15. A new element of subsidy control is the **Foreign Subsidies Regulation** (EU) 2022/2560[79] which will apply from 12 July 2023, six months after its entry into force. The notification requirements for concentrations and public procurement procedures will apply from 12 October 2023. The proposal aims to close a legislative gap and restore the level playing field in concentrations, public procurement and other market situations Until now, subsidies granted by non-EU governments to economic operators active in the EU went largely unchecked, while subsidies granted by EU Member States are subject to close scrutiny. The European Commission will have the power to investigate financial contributions granted by public authorities of non-EU countries which benefit companies engaging in an economic activity in the EU and redress, if needed, their distortive effects.

6.16. Industrial policies, including increased subsidisation, have become more prominent around the world, including in the EU, to alleviate the impact of temporary crises such as the pandemic and to address more structural challenges such as the green transition. In the EU, the industrial policy tools include the **Important Projects of Common European Interest** (IPCEIs) that aim to encourage cross-border cooperation among enterprises in a given sector in research and development and in pre-commercial industrial deployment. IPCEI funding cannot be used for mass production or commercial sales, and the public support is subject to State aid control.

6.17. State aid is prohibited from being conditioned by the origin of products or equipment, such as requirement for the beneficiary to purchase domestically-produced products. State aid provisions also require a non-discriminatory provision of support, so that all undertakings are treated equally, independently of their origins. These characteristics aim to minimise negative spill-overs of the industrial policy, both within the EU single market and on the global level playing field.

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[77] Regulation (EU) 2019/159, *OJ L 31*, 1/2/2019, p. 27 (a provisional measure had been in place since July 2018 by Regulation (EU) 2018/1013, *OJ L 81*, 18/7/2018, p. 139).

[78] Viewed at: https://competition-policy.ec.europa.eu/state-aid/scoreboard_en.

[79] Regulation (EU) 2022/2560 on foreign subsidies distorting the internal market, *OJ C 105, 4/3/2022*, p. 87.

6.4 The EU's public procurement policy

6.18. The EU advocates for open international public procurement markets and has opened its public procurement market for many goods and services from third countries. Closed procurement markets undermine competition and transparency, increase the costs of public goods and services for taxpayers in addition to the risk of corruption. By contrast, many EU companies are experiencing difficulties in getting access to third countries' procurement markets. In response, the EU is taking action to ensure a level playing field and to increase opportunities for EU companies. The International Procurement Instrument[80] entered into force on 29 August 2022. This new instrument confers the EU additional opportunities to engage with third countries in order to remove barriers affecting access to public procurement markets outside the EU. It will be one of the key market-opening tools for public procurement.

6.19. The upcoming Foreign Subsidies Regulation (see Section 6.3) empowers the Commission to investigate distortive foreign subsidies and take appropriate measures, including in the field of public procurement. For public procurement procedures above high thresholds (EUR 250 million estimated value), foreign financial contributions above €4 million must be systematically notified by the economic operators. In the case where an investigation shows the existence of distortive subsidies, award of the contract may be prohibited to the investigated economic operator. The Commission can also investigate awarded contracts ex officio and take redressive measures, without cancelling the contracts.

6.20. In the review period, the Commission also adopted a number of guidance documents, clarifying rules and flexibilities in relation to the pandemic[81], innovation procurement[82], social procurement[83], and sanctions against Russia[84] (see section 7.2).

6.21. In terms of implementation of existing rules, Directive 2014/55/EU on electronic invoicing in public procurement, whose key element is the European Standard, reached its final milestone in April 2020. Starting from this point, all public authorities using public procurement above the EU thresholds should accept electronic invoices, which comply with the Standard. The standard developed in Europe and the EU model for E-Invoicing has picked up interest in other parts of the world and is used in negotiations to help introduce digitalisation provisions in trade agreements.

7 TRADE POLICY RESPONSE TO CRISIS

7.1 COVID-19 related temporary measures

7.1. A specific State aid Temporary Framework was adopted in March 2020 to support the economy in the context of the coronavirus outbreak. The temporary framework expired in June 2022, with some exceptions to ensure transition. Investment and solvency support measures may still be put in place until 31 December 2023. The conversion and restructuring options of debt instruments into other forms of aid continues until 30 June 2023.

7.2. In response to the pandemic the EU also implemented temporary customs duty and value added tax relief[85] on essential COVID-19 related health goods. It also responded to initial scarcity on the EU market of personal protective equipment with a temporary requirement making exportation subject to an authorisation.[86] This scheme was put in place as a temporary measure and struck the right balance between delivering on public health needs and securing open trade flows. According to the reports submitted by Member States, exporters requested more than 1,300 authorisations falling under this export authorisation requirement. Some 95% of all

[80] Regulation (EU) 2022/1031, *OJ L 173*, 30/6/2022, p. 1.
[81] Commission Decision (EU), *OJ C 108I*, 1/4/2020, p. 1.
[82] Commission Notice (EU), *OJ C 267*, 6/7/2021, p. 1.
[83] Commission Notice (EU), *OJ C 237*, 18/6/2021, p. 1.
[84] Viewed at: https://finance.ec.europa.eu/system/files/2022-08/faqs-sanctions-russia-public-procurement_en_0.pdf.
[85] Commission Decision (EU), *OJ L 103I*, 3/4/2020, p. 1.
[86] Commission Implementing Regulation (EU) 2020/402, *OJ L 77I*, 15/3/2020, p. 1 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0402&from=GA and; amended by Commission Implementing Regulation (EU) 2020/426, *OJ L 84I*, 20/3/2020, p. 1 https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0426&from=EN and; Commission Implementing Regulation (EU) 2020/568, *OJ L 129/7*, 24/4/2020, p. 1.

applications have been approved. This equalled the exports of more than 13 million protective masks, around 1 million protective garments and more than 350,000 protective masks and visors.

7.3. To ensure that contractual deliveries of vaccines to those living in the EU could be fulfilled the EU implemented in early 2021 a temporary scheme making the exportation of vaccines subject to an authorisation[87] in order to mitigate the risks that exports would affect either the execution of Advance Purchase Agreements, signed by Member States, or the security of Union supplies of COVID-19 vaccines and their active substances, and to cater for the need for transparency of export deliveries and Union supplies. The EU has been the number one exporter of COVID-19-related vaccines in the world. Exporters requested authorisations for around 1.2 billion COVID-19 vaccine doses. All exports, except one shipment of 250,000 doses, were authorised.

7.4. All measures have now expired and are no longer in force. Exports of COVID-19 vaccines and their active substances are still being monitored until 31 December 2023[88], however no authorisation is needed for these exports. It should also be noted that during the duration of the measures the EU maintained exemptions for deliveries of vaccines to third countries, amongst others via COVAX. Some 3,450 authorisations covering 1.2 billion doses and substances for production of another one billion doses were approved for export during the duration of the measures.

7.2 Sanctions

7.5. The EU also adopts restrictive measures – 'sanctions' – that are an essential tool in the EU's common foreign and security policy (CFSP) and through which the EU can intervene where necessary to prevent conflict or respond to emerging or current crises. Some of these measures concern trade, with those against Russia being one example.

7.6. Since Russia's recognition of the non-government-controlled areas of the Donetsk and Luhansk oblasts in Ukraine on 21 February 2022 and its unprovoked and unjustified military aggression against Ukraine on 24 February 2022, the EU has imposed a series of new sanctions against Russia, Belarus and Ukraine non-government controlled areas. They add to existing measures imposed on Russia since 2014 following the annexation of Crimea and the non-implementation of the Minsk agreements.

7.7. Sanctions include targeted restrictive measures (measures against individuals) and economic sanctions, and are accompanied by diplomatic measures. The aim of the economic sanctions is to impose severe consequences on Russia for its actions and to effectively thwart Russian abilities to continue the aggression. The relevant trade measures[89] have been notified to the WTO.[90]

7.8. It is important to underline that the EU sanctions target goods, services and technology with the aim to reduce the war capacity of Russia, and do not target food and agricultural products, as food security and affordability are a key priority for the EU and its Member States, just as it is for our international partners. EU sanctions explicitly exclude food and foodstuffs (except alcoholic beverages, cigarettes), goods that are primarily for consumers and health/pharmaceuticals. Moreover, there are no restrictions of any kind on nitrogen and phosphorus fertilisers, which account for 85% of the fertiliser market. The tariff rate quotas (TRQs) on potassium (potash) fertilisers imply that EU imports do not exceed average annual EU imports from Russia 2017-2021. There are no sanctions on Russian exports of food or fertilizer to global markets and no limitations stem from EU sanctions with respect to transport and transactions regarding food and fertilisers from Russia to third countries.

7.9. By way of derogation, the competent authorities of a Member State may authorise some of the activities covered by sanctions (i.e., imports, transport, services) if they have determined that it is necessary for humanitarian purposes. Among others this may include goods for humanitarian purposes, health emergencies, the urgent prevention or mitigation of an event likely to have a

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[87] Commission Implementing Regulation (EU) 2021/111, *OJ L 31I*, 30/1/2021.

[88] Commission Implementing Regulation (EU) 2021/2071, *OJ L 421/52*, 26/11/2021, http://data.europa.eu/eli/reg_impl/2021/2071/oj.

[89] Regulation (EU) No 833/2014, *OJ L 229*, 31/7/2014, p. 1; Regulation (EU) No 2021/821, *OJ L 206*, 11/6/2021, p. 1.

[90] WTO Document, G/L/59/Ver.1.

serious and significant impact on human health and safety or the environment, or as a response to natural disasters and this may include goods for medical or pharmaceutical purposes.

7.10. Additionally, new provisions on procurement[91] forbid awarding and maintaining already awarded contracts to Russian nationals, Russian companies, companies owned for more than 50% by Russian nationals or companies or steered by them and when such persons are involved as subsidiaries or subcontractors in contract implementation for more than 10 % of the contract value. The provision includes a list of exceptions Member States may decide to confer to contracts of their public buyers. EU sanctions against Russia also include other measures with less direct links to trade.

8 DEFENDING THE EU'S INTERESTS AND VALUES

8.1. The review period has been marked by growing tensions between major actors in international trade. The EU is committed to promoting approaches to reduce tensions and seeking solutions based on a modernised rules-based framework. At the same time, the EU has been developing autonomous instruments necessary to protect the EU's essential interests and values – in full compliance with its international commitments.

8.1 Investment Screening

8.2. The EU framework for the screening of foreign direct investment (FDI) was established by Regulation (EU) 2019/452. It has been fully applicable since October 2020. The cooperation mechanism created by the regulation allows all Member States and the Commission to collectively assess and address potential threats to security and public order deriving from FDI in the EU. The EU cooperation mechanism complements screening mechanisms of Member States at national level.

8.3. The regulation applies to all sectors of the economy and is not subject to any thresholds concerning the value of the investment.

8.4. The review of and, when required, the adoption of measures prohibiting or conditioning an investment within the scope of the regulation on grounds of security of public order is the ultimate responsibility of Member States. The Commission may address opinions recommending specific actions to the Member State where the investment takes place, in particular when there is a risk that the investment affects security or public order in more than one Member State or projects and programmes of Union interest. The Commission reports annually on the implementation of the regulation.[92]

8.2 Export controls

8.5. The modernisation of the EU export control regime materialised with the entry into force of the updated EU Regulation 821/2021 (recast) on 9 September 2021.

8.6. The new Regulation represents a comprehensive system upgrade where all provisions have been amended to enhance the efficiency and effectiveness of controls. This includes updated definitions and control parameters, harmonisation, simplification and digitalisation of licensing, enhanced information-sharing, and cooperation with third countries.

8.7. The new regulation introduces a basis for EU autonomous controls, allowing the EU to make its own decisions regarding human rights controls on cyber-surveillance technologies, and for a coordination of national controls on emerging technologies. In this sense, the new regulation establishes a human security dimension that allows for an EU mechanism for human rights end-use controls on cyber-surveillance exports. The mechanism builds on a mandatory and prescriptive consultation procedure resulting in the publication of an EU watch list of items and destinations subject to control. The mechanism is supported by due diligence requirements for exporters to be developed in consultation with industry and civil society.

[91] Regulation (EU) 2022/576, *OJ L 111*, 8/4/2022, p. 1.
[92] Viewed at: https://policy.trade.ec.europa.eu/enforcement-and-protection/investment-screening_en.

8.8. In line with Article 26(1) of the new regulation, on 15 September 2021, the Commission issued a recommendation on internal compliance programmes for controls of research involving dual-use items.[93] The Commission reports annually on the implementation of the new Regulation.[94]

8.3 Acting against economic coercion

8.9. In December 2021, the European Commission proposed a new legal instrument[95] on the protection of the EU and its Member States from economic coercion by third countries.

8.10. The aim of this instrument is to deter third countries from using economic coercion, and to dissuade them from continuing the economic coercion, if it occurs, by engaging with the third country concerned in various respects. As a last resort, the regulation would enable the Union to counteract the economic coercion. Economic coercion refers to situations where a third country is seeking to pressure the Union or an EU Member State into making a particular policy choice by applying or threatening to apply measures affecting trade or investment against the Union or an EU Member State. Third countries may resort to coercion to bring about a change of policy in the EU in areas falling under domestic prerogatives. The rationale of the instrument, in terms of both standing against economic coercion and the permissibility of response measures as a last resort, lies in general international law which outlaws interventions in the internal or external affairs of other states and which allows countermeasures in response to internationally wrongful acts (rather than specifically in the WTO Agreement).

8.11. The Commission proposal is currently before the EU co-legislators, for consideration and approval, within the ordinary legislative procedure. A decision on its adoption is expected in 2023.

9 EXTERNAL IMPACTS OF THE EU'S INTERNAL POLICIES

9.1 Digital Services and online platforms

9.1. Several legislative initiatives have been finalized in the review period:

- The Regulation on European data governance and amending Regulation (EU) 2018/1724 (Data Governance Act)[96] seeks to increase trust in data sharing, strengthen mechanisms to increase data availability and overcome technical obstacles to the reuse of data.

- The Regulation on contestable and fair markets in the digital sector (Digital Markets Act)[97] establishes a level playing field to foster innovation, growth, and competitiveness in particular for large online platforms as so-called "gatekeepers" in order to make sure that they behave fairly on the market. The Digital Markets Act will start to apply on 2 May 2023.

- The Regulation on a Single Market for Digital Services (Digital Services Act)[98] concerns online intermediaries and platforms, such as, online marketplaces, social networks, content-sharing platforms, app stores, and online travel and accommodation platforms. It will create a safer digital space in which the fundamental rights of all users of digital services are protected. Together with the Digital Markets Act, its goal is to safeguard citizens and their fundamental rights online.

- The Directive on better enforcement and modernisation of Union consumer protection rules (EU) 2019/2161 ("Modernisation Directive") amends the existing EU consumer law directives. It strengthens consumer protection in the Digital Single Market by, amongst others, increasing transparency and prohibiting misleading practices as regards consumer reviews, ranking of search results, contracts concluded via online marketplaces and personalised pricing.

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[93] Recommendation (EU) 2021/1700, *OJ L 338*, 23/9/2021, p. 1.
[94] Viewed at: https://ec.europa.eu/commission/presscorner/detail/en/ip_22_5286.
[95] European Commission, *The protection of the Union and its Member States from economic coercion by third countries*, COM/2021/775 final.
[96] Regulation (EU) 2022/868, *OJ L 152*, 3/6/2022, p. 1.
[97] Regulation (EU) 2022/1925, *OJ L 265*, 12/10/2022, p. 1.
[98] Regulation (EU) 2022/2065, *OJ L 277*, 27/10/2022, p. 1.

9.2. With the adoption of the Digital Markets Act and the Digital Services Act, the EU created the world´s first general framework for regulating digital services and online platforms.

9.3. The Digital Services Act and the Digital Markets Act together set out a first comprehensive rulebook for online platforms applicable across the whole of the EU. They build on the EU's Platform-to-Business Regulation, which started to apply during the review period, on 12 July 2020. The measures create a single set of rules for all digital services within the EU's single market, through harmonising 27, increasingly different, laws in EU Member States into coherent EU wide legal acts, leading to both cost and time savings. They also create a level playing field and ensure equal treatment for all companies. Further, the Digital Services Act and the Digital Markets Act address problems that are shared across the globe. Finally, the Digital Services Act creates a safer and more human-centric, innovative digital space in which the fundamental rights of all users of digital services and consumers' interests are protected. These acts represent a major step forward in improving the functioning of the EU's Single Market to the benefit of enterprises and consumers from both EU Member States and third countries.

9.4. Enforcement of rights have also been strengthened. The Digital Markets Act, the Digital Services Act and the General Data Protection Regulation (GDPR)[99] have been included in Annex I to Directive (EU) 2020/1828 on Representative Actions[100] that will enter into application in June 2023. Accordingly, qualified entities designated by EU Member States pursuant to the latter directive will be able to bring legal actions before national courts or administrative authorities on behalf of groups of consumers to seek injunctive measures and redress measures whenever traders infringe the provisions of the Digital Markets Act, the Digital Services Act or the GDPR that harm or may harm the collective interests of consumers.

9.5. On 4 June 2021, the Commission issued a modernised set of model contractual clauses[101], called "standard contractual clauses" (SCCs), for international transfers of personal data, which facilitate transfers of personal data to controllers and processors outside the EEA. Under the GDPR, SCCs can be used by controllers or processors that are subject to the GDPR to transfer personal data to controllers or processors outside the EEA whose activities are not subject to the GDPR. SCCs can be incorporated (on a voluntary basis) by controllers and processors into their contractual arrangements with other parties in order to demonstrate compliance with data protection requirements, as they contain specific data protection safeguards to ensure that personal data continues to benefit from a high level of protection when transferred outside the EEA. By adhering to the SCCs, data importers contractually commit to abide by the relevant data protection safeguards.

9.6. In addition to the rules already adopted, several legislative initiatives are currently under consideration by the co-legislators of the EU, including on cybersecurity requirements for products[102], on semiconductor ecosystems[103], on artificial intelligence[104], a framework for European Digital Identity[105], on roaming[106], on fair access to and use of data[107] and on AI Liability.[108]

[99] Regulation (EU) 2016/679, *OJ L 119*, 4/5/2016, p. 1.

[100] Directive (EU) 2020/1828, *OJ L 409*, 4/12/2020, p. 1.

[101] Viewed at: https://ec.europa.eu/commission/presscorner/detail/en/ip_21_2847.

[102] European Commission, Proposal for a Directive of the European Parliament and the Council on horizontal cybersecurity requirements for products with digital elements and amending Regulation, COM(2022) 454 final.

[103] Viewed at: https://digital-strategy.ec.europa.eu/en/library/european-chips-act-communication-regulation-joint-undertaking-and-recommendation.

[104] European Commission, Proposal for a Regulation of the European Parliament and the Council laying down rules on artificial intelligence (Artificial Intelligence Act) and amending certain union legislative acts, COM/2021/206 final.

[105] European Commission, Proposal for a Regulation of the European Parliament and the Council amending Regulation (EU) No 910/2014 as regards establishing a framework for a European Digital Identity, COM/2021/281 final.

[106] European Commission, Proposal for a Regulation of the European Parliament and the Council on roaming on public mobile communications networks within the Union (recast), COM(2021) 85 final.

[107] European Commission, Proposal for a Regulation of the European Parliament and the Council on harmonised rules on fair access to and use of data (Data Act), COM/2022/68 final.

[108] European Commission, Proposal for a Directive of the European Parliament and the Council on adapting non-contractual civil liability rules to artificial intelligence (AI Liability Directive), COM(2022) 496 final.

9.2 Single Market for goods

9.7. In February 2022 the EU adopted a new Standardisation strategy, which outlines the EU approach to standards within the EU Single market as well as globally to support a resilient, green and digital EU Single market. The aim is to achieve a faster system, better targeted to address standardisation needs in strategic areas as well as to improve its governance and integrity. The Strategy also targets strengthening the link between standardisation and research and innovation, and promotes higher academic awareness on standards, thus enabling the next generation of standardisation experts.

9.8. The Strategy was accompanied by a technical amendment to the Standardisation regulation and two technical reports, the Annual Union Work Programme on Standardisation and a report to the European Parliament and the Council on the implementation of the Standardisation Regulation.

9.9. In the context of the digital transformation, the Commission proposed a regulation on machinery safety on 21 April 2021 to deal with the risks stemming from digitalisation, such as interconnectivity or machine learning, and bring legal certainty for economic operators and environmental benefits by allowing digital instructions and documentation. The co-legislators, the European Parliament and the Council, are discussing the proposal to reach a compromise in the upcoming months.

9.10. As part of a broader EU effort to reduce e-waste and to empower consumers to make more sustainable choices, a regulatory measure on common charging solution for mobile phones and similar electronic devices has been adopted in September 2022. The requirements of the 'common charging' solution will apply to all handheld mobile phones, tablets, digital cameras, headphones, headsets, portable speakers, handheld videogame consoles, e-readers, earbuds, keyboards, mice, and portable navigation systems as of 2024. These requirements will also apply to laptops as of 2026.

9.3 Single Market in services

9.11. During 2020-2022, work continued to ensure an ambitious implementation of the EU services legislation, including the EU Services Directive (2006/123/EC), the Professional Qualifications Directive (2005/36/EC) and the Proportionality Test Directive ((EU) 2018/958). The European Commission issued a number of reform recommendations to Member States and pointed to potential economic benefits that would stem from reducing regulatory and administrative barriers that hamper cross-border services trade and investment in the single market.

9.12. As regards transport services, Regulation (EC) 868/2004 on the protection against subsidization and unfair pricing practices was replaced by Regulation (EU) 2019/712 on safeguarding competition in air transport. This Regulation lays down rules on the conduct of investigations by the European Commission and on the adoption of redressive measures, relating to practices distorting competition between Union air carriers and third-country air carriers and causing, or threatening to cause, injury to Union air carriers.

9.13. The EU has also signed aviation agreements with Armenia, Ukraine, Qatar, and ASEAN.

9.14. From January 2020 to October 2022, six legislative acts in road transport from the "Mobility Package 1"[109] have been adopted, setting rules as regards the regulation of the market, the protection of workers and the charging of infrastructure. The package ensures a balance between the freedom of operators to provide cross-border services, free movement of goods, adequate working conditions and social protection for drivers. It also contributes to the decarbonisation of road transport sector.

9.15. As regards financial services, since 2019, the European Commission proposed and agreed with the co-legislators on a number of important pieces of financial services legislation, in order to continue building a single market for capital, support the resilience of the financial system during

[109] Viewed at: https://transport.ec.europa.eu/transport-modes/road/mobility-package-i_en.

and its recovery from the COVID-19 crisis, and deliver on its action plans on sustainable and digital finance.

9.16. The Capital Markets Union (CMU) is essential for making the Economic and Monetary Union and the EU Member States' economies more resilient, safeguard financial stability, strengthen the international role of the euro and create new opportunities for businesses and investors across the Single Market. Further to the adoption of a renewed CMU Action Plan[110] by the Commission in September 2020, the European Parliament and the Council are currently deliberating on various proposals to streamline the rules for listing on public markets (MiFIR Review), offer a single point of access to public information about EU companies and EU investment products (ESAP), review the European Long-Term Investment Funds (ELTIFs) Regulation, and harmonise the rules around loan-originating funds (debt funds), in order to facilitate lending to real economy (AIFMD Review).

9.17. Within the framework of the European Green Deal, the Commission has also announced a renewed sustainable finance strategy in 2021. Following-up on that, the EU co-legislators have reached an agreement on the Commission's proposals to establish a classification of sustainable economic activities (EU Taxonomy) and establish a framework for the disclosure of corporate sustainability information (CSDR). A legislative proposal for the creation of a European Green Bond Standard is still under discussion.

9.18. Supporting the EU's ambition for a recovery that embraces the digital transition, the European Commission also adopted a digital finance package[111] in September 2020, with the goal to create a competitive EU financial sector that gives consumers access to innovative financial products, while ensuring consumer protection and financial stability. In this area, the EU co-legislators reached an agreement to create new legislative frameworks regulating the Markets in Crypto-Assets (MiCA) and digital operational resilience (DORA) by all firms.

9.19. Furthermore, EU co-legislators are currently discussing legislative proposals to scale up long-term investment and make the insurance and reinsurance sector more resilient (Solvency II), implement the final set of Basel III reforms for the banking prudential framework (CRR III/CRD VI), and strengthen the EU's anti-money laundering and countering the financing of terrorism rules, including the creation of a new EU authority to fight money laundering (AML Package).

9.4 Common agricultural policy

9.20. During the review period, the Common Agricultural Policy (CAP) continued on the path towards market orientation and away from trade-distorting support measures. The new CAP is a modernised policy, with a strong emphasis on results and performance.

9.21. For the years under review (2021 and 2022), the transitional legislation was put in place bridging the gap between the current CAP and the new legislation. On 2 December 2021, the agreement on the reform of the Common Agricultural Policy was formally adopted. The Common Agricultural Policy 2023-2027, as well as the new legislation started applying on 1st January 2023. It consists of three regulations: CAP Strategic Plan Regulation, CAP Horizontal Regulation, CAP Common Market Organisation Regulation. It is important to note that the regulations repeal all remaining export subsidy provisions, which means that the EU no longer has any legal base for granting any export subsidies in the agricultural sector.

9.22. The new policy, which became applicable on 1st January 2023, focuses on 10 specific objectives, linked to common EU goals for social, environmental, and economic sustainability in agriculture and rural areas. It will seek to ensure a more sustainable future for European farmers, provide more targeted support to smaller farms, and allow greater flexibility for EU countries to adapt measures to local conditions. Agriculture and rural areas are central to the European Green Deal, and the new CAP will be a key tool in reaching the ambitions of the Farm to Fork and biodiversity strategies.

[110] Viewed at: https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/capital-markets-union/capital-markets-union-2020-action-plan_en.

[111] Viewed at: Digital finance package (europa.eu).

9.23. Under the reformed policy, each EU Member State has designed a national CAP Strategic plan[112], combining funding for income support, rural development, and market measures. When designing their Strategic Plans, EU countries contribute to the ten specific objectives[113] through a toolbox of broad policy measures provided by the EU level legislation, which can be shaped around national needs and capabilities.

9.24. The overall EU budget is governed by the "Multiannual Financial Framework" (MFF) that sets out the maximum expenditure per policy area for the EU. The MFF for the period 2021 to 2027 was agreed by the Council and the European Parliament on 17 December 2020. EUR 387 billion in funding has been allocated to the CAP for the 2021-27 period. This spending will come from two different funds: the European Agricultural Guarantee Fund (EAGF), which has been set at EUR 291.1 billion (in current prices); and the European Agricultural Fund for Rural Development (EAFRD), which will amount to EUR 95.5 billion. The budget for the EAFRD includes EUR 8 billion from NGEU to help rural areas implement the structural changes necessary to achieve the goals of the European Green Deal and the digital transition.

9.25. In the period under review, following the COVID-19 outbreak, the EU launched exceptional measures to support and stabilise agricultural markets, including private storage aid, authorisation for self-organisation of producers/operators and flexible use of market support programmes. Also, the EU has taken several measures to support the farmers following the price volatility, the increased prices of inputs, including fertilisers etc., due to Russia's war of aggression against Ukraine: EU budget provided in 2022 EUR 500 million in national allocations to directly support farmers most affected by higher input costs and the closure of export markets. EU Member States could complement this support up to 200% with national funds. To address cash-flow difficulties faced by farmers, EU Member States were allowed to pay increased levels of CAP direct payments in advance.

9.26. The EU has granted an exceptional and temporary derogation to allow the production of crops on land set aside within the EU, while maintaining full greening payments for farmers. The EU has also proposed a new, self-standing Temporary Crisis Framework that would also cover farmers, fertiliser producers and the fisheries sector.

9.27. In the context of the revision of the EU geographical indications (GI) systems, the Commission adopted a proposal for a regulation on GIs for wine, spirit drinks and agricultural products, and other quality schemes for agricultural products, with the entry into force expected for the beginning of 2024. The proposal aims to ensure an effective protection of GIs and to increase the uptake of GIs across the EU in order to benefit the rural economy and achieve a higher level of protection for GIs, especially online.[114]

9.5 Customs and trade facilitation

9.28. Each year, the Customs Union facilitates the trade of more than EUR 3.5 trillion worth of goods. Efficient customs clearance and controls are essential to allow trade to flow smoothly while also protecting EU citizens, businesses and the environment. The "EU Single Window Environment for Customs" (EU SWE-C)[115] is designed to provide quicker and more efficient sharing of electronic data between national customs administrations and EU regulatory authorities across policy domains.

9.29. EU SWE-C has two key pillars:

- Government-to-government (G2G) digital cooperation will support the automated verification by customs of the non-customs formalities required for goods clearance, allowing

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[112] Viewed at: https://agriculture.ec.europa.eu/cap-my-country/cap-strategic-plans_en.

[113] Viewed at: https://agriculture.ec.europa.eu/common-agricultural-policy/cap-overview/new-cap-2023-27/key-policy-objectives-new-cap_en.

[114] To this end, a number of measures are proposed. To better valorise the GI products, the producers are encouraged to include in their product specifications social, environmental and economic sustainable undertakings that are going beyond the legal requirements. The increased protection for GIs on the internet is addressed, specifically against bad faith registrations, the use of GIs as ingredients and the use of GIs in the domain names system. The proposal also empowers producers' groups to manage, enforce and develop their GIs by accessing anti-counterfeiting authorities and customs in all EU countries. As regards the efficiency, shortening and simplification of the registration procedure is foreseen by merging different technical and procedural rules in a single GI registration procedure for EU and non-EU applicants.

[115] Viewed at: https://taxation-customs.ec.europa.eu/eu-single-window-environment-customs_en.

partner competent authorities to properly monitor and control the quantities of authorised goods imported or exported at EU level. Full deployment and use by all EU Member States of this first pillar is planned by early 2025.

- Business-to-government (B2G) digital cooperation will streamline clearance processes for traders when dealing with certain EU non-customs regulatory requirements by allowing them to provide data in one single portal in an individual Member State.

9.30. On 15 August 2019, Regulation (EU) 2019/1239, establishing a European Maritime Single Window environment (EMSWe), entered into force with the objective of reducing the administrative burden for shipping companies, expediting maritime transport, and improving the interoperability of information flows. The new Regulation further harmonizes rules for submitting information when ships arrive at or depart from EU ports. It will be fully applied from 2025 and is expected to halve the time currently required for administrative formalities for port calls.

9.31. Regulation (EU) 2020/1056 of 15 July 2020 on electronic freight transport information (eFTI) entered into force on 20 August 2020 with the aim of encouraging the digitalisation of freight transport and logistics, reducing administrative costs, improving enforcement capabilities of competent authorities, and enhancing the efficiency and sustainability of transport. It establishes a legal framework for the electronic communication of regulatory information between economic operators and competent authorities in relation to the movement of goods within the EU. It shall apply from 21 August 2024, while the competent authorities shall accept regulatory information made available electronically by economic operators from 21 August 2025.

9.32. On 1 July 2021, the application of the VAT e-commerce package[116] has introduced a number of amendments to the VAT rules governing the taxation of business-to-consumer cross-border e-commerce activity in Europe and eliminated the *de minimis* threshold for the import of goods with a value up-to 22€. Since then, an electronic customs declaration is required for all goods imported into the EU, regardless of their value. To facilitate the release into free circulation of low value consignments which are not subject to import duty, Commission Delegated Regulation (EU) 2019/1143 of 14 March 2019 introduced a specific customs declaration with a reduced dataset. In addition, to help reduce the compliance burdens faced by traders of goods and services, the package extended the One Stop Shop (OSS) simplifications schemes for the collection, declaration and payment of VAT, including for goods dispatched from outside the EU. The e-commerce package also introduced new liability for electronic interfaces, such as marketplaces and platforms, when they facilitate certain transactions by traders who sell via their platforms.

9.33. On 6 April 2022, the reform of the system of VAT rates was adopted. Member States are treated equally and given more flexibility to apply reduced, as well as zero VAT rates. The list of goods and services for which reduced VAT rates are allowed has been updated and modernised.[117]

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[116] Directive (EU) 2017/2455, *OJ L 348*, 29/12/2017, p. 7; Regulation (EU) 2017/2454, *OJ L 348*, 29/12/2017, p. 1.

[117] To ensure equal treatment, existing derogations applied by some Member States are – insofar as compatible with agreed principles – opened to all Member States. The package also contains measures to address possible future crises enabling Member States to respond swiftly to exceptional circumstances, like pandemics, humanitarian crises or natural disasters. The preferential treatment for environmentally harmful goods will be phased out. Reduced VAT rates or exemptions on fossil fuels and other goods with a similar impact on greenhouse gas emissions will cease to apply by 1 January 2030 and those on chemical fertilizers and chemical pesticides by 1 January 2032, giving small-scale farmers more time to adapt. In addition, some environmentally friendly goods and services are added to the list for which reduced rates are allowed, such as solar panels, electric bicycles and waste recycling services.