
SUMMARY

1. The European Union, as a political and economic union of 27 countries, allows most goods, services, capital, and persons to move freely within its territory. The period under review was characterized by a major change in development and political goals and priorities led by the adoption of, *inter alia*, the European Green Deal, a Europe fit for the digital age, and a new political agenda to reinforce the European Union's global influence and leadership in the world. Policies and agendas under these strategies are expected to shape not only the political landscape but also impact many trade and investment policies. While many of these concrete measures are still a work in progress (e.g. the Carbon Border Adjustment Mechanism, green taxation, and green government procurement), certain new measures have already been adopted (e.g. the Digital Services Act (DSA) and the Digital Markets Act (DMA)). Furthermore, these strategies, as well as the impact of the COVID-19 pandemic and the war in Ukraine, led to the review of various EU policies and practices, including in the areas of trade, agriculture, and energy. Temporary measures applying notably to exports and state aid, and also additional funding through the European Union's budgets, were specific to the pandemic response. Another notable development during the review period was the withdrawal of the United Kingdom from the European Union in early 2020.

2. The EU economy had many years of stability and growth prior to the pandemic, when GDP growth averaged 2.1%; however, since then, there has been increased volatility and uncertainty and real GDP declined by 5.7% in 2020. In 2021, a strong recovery occurred with GDP growth reaching 5.4%. Despite another shock in early 2022 due to the war in Ukraine, GDP growth remained strong. Reform of the European Union's economic governance framework advanced during the review period with a proposal to facilitate effective economic surveillance through a new common framework, which among other things will have a medium-term focus and a more risk-based approach to surveillance with greater attention on high debt ratios. With respect to EU employment, despite a slight downturn in 2020 due to the pandemic, the subsequent increase in 2021 was significant as employment rates in a majority of member States exceeded pre-pandemic levels and unemployment reached an all-time low.

3. In terms of external trade, the European Union remained the world's top trader, with EUR 6.28 trillion traded in goods and services in 2021. International trade was the equivalent of 21.5% of EU GDP. The trade surplus in goods contracted significantly in 2021 to EUR 56.8 billion on account of a significant increase in the value of imports largely due to higher cost of energy imports. For services trade, after a contraction in 2020, a recovery ensued in 2021, with exports increasing by 16% and imports by 4% from 2020 levels. The stronger recovery of exports over imports led to a slight widening of the services trade surplus to EUR 122 billion in 2021. China, Switzerland, the United Kingdom, and the United States were the European Union's main trading partners. There were no major changes in the ranking of the European Union's main trading partners during the period under review.

4. In February 2021, the European Union adopted a new trade strategy entitled An Open, Sustainable, and Assertive Trade Policy, which is articulated around the principles of open and fair trade but also seeks to achieve an "open strategic autonomy". Under this approach, the European Union prioritizes multilateral cooperation but intends to act autonomously if needed. To support the strategy's implementation, the Commission developed various proposals for regulations during the review period, some of which had been already approved, e.g. a regulation regarding foreign subsidies and another on countermeasures to ensure enforcement of international trade agreements.

5. The multilateral trading system remains an integral component of EU trade policy, and the reform of the WTO is one of the European Union's priority actions. During the review period, the European Union continued to actively contribute to the WTO's core functions, including as one of the main donors for capacity-building and technical assistance activities. The European Union promoted discussions through joint proposals/initiatives on, *inter alia*, domestic regulation of trade in services, e-commerce, investment facilitation, transparency, trade and environment, trade and gender, and MSMEs. The establishment of the Multi-Party Interim Appeal Arbitration Arrangement was also an initiative led by the European Union together with other WTO Members. The ratification process for the Agreement on Fisheries Subsidies is ongoing.

6. As concerns regional and bilateral agreements, the European Union had, as of December 2022, the largest network of RTAs in the world with 44 agreements in place. During the

review period, the European Union signed and implemented the Trade and Cooperation Agreement with the United Kingdom following its withdrawal from the European Union, and also concluded the accession of the Solomon Islands to the EU-Pacific States RTA. The European Union was also engaged in negotiations for new RTAs (i.e. with New Zealand, Australia, and Indonesia) and to update or deepen existing ones (e.g. Chile and Mexico). The European Union sought to strengthen implementation and enforcement by establishing a new internal complaint mechanism – the Single-Entry Point, creating an office for trade enforcement and monitoring – and by enhancing the enforcement mechanism of the Chapters on Trade and Sustainable Development in its RTAs.

7. The European Union also continues to facilitate trade with developing countries mainly through its GSP scheme, which has three components (i.e. standard GSP, the GSP+, and the Everything but Arms (EBA) arrangement) and covered 66 economies as of December 2022. The GSP, except for its EBA component, is expected to expire by the end of 2023 and a proposed regulation for its renewal for the period 2024-34 is under consideration. The proposed regulation contains the main characteristics of the existing programme while making some specific changes for beneficiaries to, *inter alia*, strengthen enforcement and support EU environmental objectives.

8. Regarding foreign investment, in October 2020, the European Union implemented a common framework, which was adopted in 2019, for the screening of FDI for reasons of security and public order. The framework provides for a set of minimum requirements for the functioning of national screening mechanisms and for a cooperation mechanism to share information. Of the transactions that were formally screened in 2021 and had a decision issued, the majority were authorized with or without conditions, and only 1% of transactions were blocked. In December 2020, the European Union concluded an agreement in principle for a Comprehensive Agreement on Investment with China.

9. In the area of customs, new rules on e-commerce removed the VAT *de minimis* exemption on imports of low-value consignments. Facilitating this change, the Import One-Stop Shop (IOSS) was introduced to simplify the declaration and payment of VAT for distance sales of these consignments. A number of IT systems for the facilitation of customs procedures continued to be implemented during the period and the remaining systems are expected to be operational by 2025. The Regulation on the EU Single Window Environment for Customs entered into force in 2022. Applied MFN tariffs have not changed significantly, and rates of duty remain substantially the same; the simple average tariff was 6.5%, but the agricultural sector continued to have rates on average three times higher compared to non-agricultural goods. The number of tariff lines with non-*ad valorem* duties remained significant, at about 10% of all lines. Certain temporary measures on imports, e.g. suspension of certain duties, were instituted to benefit Ukraine in response to the war.

10. The European Union continued to be a significant user of anti-dumping measures and countervailing measures (which the European Union refers to as anti-subsidy measures) and was an increasing target for these measures from third markets during the review period. As of December 2022, 178 anti-dumping and countervailing measures were in place. The sector most impacted during the review period was iron and steel in terms of new investigations. There were few changes in the trade remedies framework, as the previous modernization exercise of 2017-18 continued to be implemented. The surveillance measures the European Union had in place on steel and aluminium products lapsed but an *ex post* monitoring system was introduced. The safeguard measure on steel remained in place during the review period and it was prolonged and amended. An increasing number of sanctions, or restrictive measures, were put in place during the period.

11. Several measures on exports continued to be maintained by the European Union, mainly due to various international conventions. Certain amendments were made to the Regulation on drug precursors and the Regulation on hazardous chemicals to amend the product coverage. There were also temporary export measures imposed by the European Union and most of the member States in response to the COVID-19 pandemic, although these were mainly in place for a very short duration. Through the State Aid Temporary Framework, flexibilities were added for Short-Term Export Credit insurance, thus allowing public authorities to assume risks associated with exports to marketable risk countries. The European Union was also exploring options for an EU strategy on export credits.

12. At the EU level, subsidies are mostly granted to agriculture and regional development and are mainly financed by shared management funds, whose composition was amended for the budget period 2021-27. At the member State level, state aid (not related to COVID-19) continued to be directed to promote environmental protection and energy savings. In response to the COVID-19

pandemic, temporary programmes were put in place to direct additional funds to the private sector, and to simplify rules and provide flexibilities for accessing funds, as well as for the provision of state aid. Member States also increased the amount of state aid in response to the pandemic, which amounted to EUR 320 billion in 2020, up from EUR 135 billion in 2019. For the period 2021-27, additional funding will also be available through the newly established NextGenerationEU recovery programme for which the European Union allocated EUR 806.9 billion. The European Union is also reviewing various state aid guidelines and regulations, including the State Aid General Block Exemption Regulation and the *De minimis* regulation. In 2022, a revised framework on state aid for research, development, and innovation activities was issued and a Temporary Crisis Framework in response to the war in Ukraine was adopted.

13. In the area of technical barriers to trade (TBT), the European Union implemented some legislative changes that were adopted in 2019 to improve and strengthen the functioning of its TBT regime, notably regarding the application of the principle of mutual recognition, market surveillance, labelling, and online sales. During the review period, standardization gained more prominence. In 2022, a new European Standardization Strategy was issued wherein standardization is identified as key strategic tool to achieve EU environmental, digital, and economic objectives.

14. As concerns sanitary and phytosanitary (SPS) measures, the European Union completed the implementation of the Plant Health Law, the Animal Health Law, and the Regulation on Official Controls, all adopted in previous years to simplify and harmonize its SPS regime. In March 2021, the European Union also amended the General Food Law to improve transparency and public participation in the risk assessment and approval procedures for products, and in January 2022 started applying updated rules (adopted in 2018) on the manufacturing, trade, sale, and use of veterinary medicinal products, including on the use of antimicrobials. In May 2020, the European Union adopted the Farm to Fork Strategy, which, *inter alia*, identifies the areas of action to achieve a sustainable EU food system during the period 2020-24, including possible reforms on feed additives, pesticides, plant protection, and animal welfare, as well as the establishment of a new legislative framework for sustainable food systems.

15. The European Union's legal framework on government procurement remained broadly the same during the review period. Expenditure on government procurement remained robust, amounting to EUR 2,388 billion or about 13.7% of GDP. The European Union adopted a regulation on foreign subsidies (i.e. subsidies by a third country), which will apply from July 2023, to address situations where a company receiving foreign subsidies causes distortions to the internal market through, *inter alia*, its participation in EU public procurements, or the acquisition of an EU company or assets affecting the market structure. For competition, a notification-based tool was introduced as part of this regulation to notify *ex ante* financial contributions received from a non-EU government prior to concluding a concentration. A new Vertical Block Exemption Regulation and new Vertical Guidelines aimed at allowing undertakings to self-assess conformity with competition laws were also introduced.

16. Intellectual property rights (IPRs) remained of growing importance to the EU economy, both in terms of employment and contribution to GDP. Developments in the area of IPRs during the period include the issuance of new Guidelines on EU trademarks and on registered Community designs, as well as the adoption of two package proposals for the modernization of design protection legislation. Regarding geographical indications, two proposals – one for a Regulation on craft and industrial products, and one for a Regulation on wine, spirit drinks, and agricultural products – were adopted, as were quality schemes for agricultural products.

17. In agriculture, the previous Common Agricultural Policy (CAP) continued to be applied on a transitional basis as the new CAP was approved and entered into force in January 2023. The new CAP brings together the agricultural and rural development policies of the European Union, strengthening the focus on measures addressing climate and environmental concerns, and uses a more results-based approach. CAP Strategic Plans at the member State level will detail specific measures, based on identified needs and intervention strategies. Overall funding under the CAP remains largely unchanged, and the European Agriculture Guarantee Fund and European Agricultural Fund for Rural Development continue to finance implementation. The European Union did not grant export subsidies during the review period, and the provision allowing for export refunds in exceptional circumstances has now been legally removed. There were no substantial changes regarding market access for agricultural products.

18. The Common Fisheries Policy and its implementation mechanisms remain in place, but regulations regarding its funding were updated with the European Maritime, Fisheries and Aquaculture Fund replacing the European Maritime and Fisheries Fund from 2021. While the type of support provided did not fundamentally change, some additional capacity-enhancing activities are no longer eligible for funding. The European Union continues to implement policies to address IUU fishing both domestically and with international partners. The revision of the European Fisheries Control system remains pending. In 2021, the Commission adopted an EU Forest Strategy for 2030 and in late 2022, the Council and the Parliament reached a provisional agreement on a regulation aiming to prevent deforestation and forest degradation, but its adoption remains pending.

19. The importance of energy and climate policies gained further impetus during the review period with the shift towards renewable and low-carbon energy, improving energy security, and reducing emissions to achieve climate neutrality. The 2021 Fit-for-55 package aims to align these policies with the climate-related goals of the European Green Deal and the Climate Law, which includes targets for GHG emission reductions. The package contains many policy initiatives that focus on emissions reduction through various channels from the demand- and supply-side, including complementing the Emissions Trading System with a Carbon Border Adjustment Mechanism, or reforming energy taxation. Most recently, the REPowerEU plan aims to diversify the energy supply, save energy, and facilitate an increase in clean energy generation. The Plan includes faster permitting rules for renewable energy projects and supporting the development of renewable hydrogen. A number of regulations established minimum storage levels for natural gas, voluntary gas demand reduction targets, and a cap for market revenues from electricity generation in 2022.

20. According to the OECD, the overall restrictiveness of EU member States' external services trade regime remains relatively low. Developments during the period include the entry into force of adjustments to the regulatory framework for the posting of workers and the adoption of the DSA and the DMA in 2022. The DSA harmonizes the rules applicable to "intermediary services" in the internal market with the objective of ensuring a transparent, safe, predictable, and trusted online environment. It introduces due diligence requirements and systems for handling internal complaints, regulates online advertising, and exempts intermediary service providers from liability regarding content, except in some circumstances; it furthermore contains additional rules for very large online platforms and online search engines. Separately, the DMA contains provisions aimed at restricting anti-competitive practices of certain "gatekeepers", i.e. undertakings that provide core platform services.

21. The financial services regulation continued to focus on enhancing resilience and transparency. Regarding the Capital Markets Union, the prudential regulation of investment firms was finalized in 2019, as efforts to integrate national capital markets continued with discussions of various proposals. A number of equivalence decisions regarding capital markets were taken during the review period. Regarding digital financial services, a regulation on digital operational resilience of financial entities was adopted, while efforts to regulate crypto-assets continued. As a response to the COVID-19 pandemic, the European Union made certain changes to financial sector regulation with the aim of facilitating continued access to capital and supporting economic recovery.

22. The Commission considers that capital markets will have to play an important role in achieving the objectives of the European Green Deal. Since 2020, the Taxonomy Regulation has defined which economic activities and investments qualify as sustainable or contributing to the low-carbon transition in this context, with an amended Sustainable Finance Disclosure Regulation aiming to limit "greenwashing" of financial instruments. Discussions regarding rules for Green Bonds have advanced.

23. During the review period, reforms in road transport services expanded certain rules to transport operators of small vehicles and amended rules applying to cabotage operations, working conditions and requirements for drivers, and the posting of drivers. In the area of rail transport, reforms agreed under the fourth EU Railway Package in 2016 were phased in, while for air transport, the Commission approved a revised proposal to reform the "Single European Sky", which also aims to address carbon emissions. Several air transport agreements were concluded or signed, among them a comprehensive EU air transport agreement with the Association of Southeast Asian Nations (ASEAN). In the area of maritime transport, the reform affecting the provision of port services has been applied since 2019.

24. Regarding telecommunications, the European Electronic Communications Code (EECC) entered into force in 2020 and continues to be transposed by some member States. The abolition of roaming charges for customers travelling occasionally within the European Union was evaluated and extended until 2032, while newly established termination rates for intra-EU calls are being phased in until 2024. Many member States implemented, or plan to implement, measures contained in a new toolbox to mitigate certain cybersecurity risks related to 5G, and some amended or implemented new laws addressing risks related to high-risk vendors. Complementary to these efforts, the new Directive on the Security of Network and Information Systems (NIS 2) replaced an earlier Directive and will be transposed by member States by mid-October 2024.