
Memo to the commissioner responsible for trade

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You face three main challenges: maintain the EU's commitment to open markets at home and abroad by continuing to adhere to the multilateral rules-based trading system; continue to sign and implement free-trade agreements; and head-off the resistance from the Global South to trade-climate policies such as the carbon border adjustment mechanism.

To meet the challenges, you must champion open trade and multilateralism despite the headwinds, continue to facilitate security and climate cooperation, tackle distorting industrial policy by pushing for World Trade Organisation reform, resist Chinese or US trade coercion and find new ways to address the trade-climate-development nexus.

Champion open trade and multilateralism

Resist coercion; push WTO reform

Address the trade-climate-development nexus

State of affairs

Until recently, the objective of European Union trade policy was mainly economic: to foster (together with the single market) an environment favourable to the economic wellbeing of EU firms and consumers. The main task was to maintain open markets at home and abroad by promoting adherence to the multilateral rules-based trading system. The success of this strategy is reflected by the fact that the EU's rank in world goods trade (excluding intra-EU trade) is second in exports (behind China) and imports (behind the United States). The EU ranks first in the export and import of services.

This state of affairs persisted while geopolitical considerations played only a minor role in the conduct of trade policy in the EU and elsewhere – first during the Cold War, when globalisation proceeded only within the Western sphere, and then after the Cold War and before the China-US confrontation, when all countries joined the multilateral trading system by adhering to the World Trade Organisation (WTO), and ‘hyper-globalisation’ meant truly global trade and investment integration, dominated by purely economic considerations and global value chains.

Today, however, geopolitical and climate considerations often dominate purely economic ones in the shaping of economic policies, including trade policy. The EU and other economies have put in place various economic policies in response to concerns about ‘economic security’ – a term that more often than not has a strong national security or geopolitical flavour. The EU and other economies have also been deploying various economic policies to meet international commitments to reach climate neutrality.

Increasingly, security and climate objectives are part of the deployment of economic strategies

Increasingly, security and climate objectives are part of the deployment of economic strategies in China (with ‘Made in China 2025’), the US (with the Inflation Reduction Act) and the EU (with the Net Zero Industry Act), as well as in other major trading countries. Such strategies typically involve subsidies and other forms of industrial policy, often with a protectionist angle if not intent.

Altogether, these various policies have started to fragment world markets, though the term ‘deglobalisation’ is probably incorrect at this stage. The period of hyper-globalisation, during which world

trade increased much faster than world production, seems to be over, but globalisation has not reversed, at least if one considers trade in goods and services together. Instead, it seems to have levelled off, hence the term ‘slowbalisation’ to characterise the current period.

The current geopolitical situation has led to paralysis at the WTO

The current geopolitical situation, in particular the economic and strategic competition between China and the United States, has led to paralysis at the WTO. Suspension of the Appellate Body because of the US’s continuing objections is just one aspect. The WTO, which now counts 166 members, has suffered from two main problems for a while. First, some of its rules, including those that relate to security and climate measures, and also subsidies and digital trade, are outdated. Second, the economic and political diversity of its members and the fact that decisions are taken by consensus, which essentially gives veto power to any member, make reform very complicated.

Despite these problems, the WTO continues to play a central role in the trade policies of all its members, including China, the US and the EU. Despite WTO paralysis, none of its members has decided so far to disregard existing rules completely – although the US is openly flouting some of these rules. We estimate that 80-90 percent of world trade continues to fall under WTO rules, the main exception being the US tariff surcharge on imports from China added by President Trump and further increased by President Biden. In addition, WTO members all participate actively in daily meetings held at the WTO headquarters in Geneva, and in Ministerial Conferences held every two years, most recently in Abu Dhabi in March 2024.

Against this background, EU trade policy has remained attached to multilateralism and global trade rules, but has had to adjust with a grain of realism. This has meant the continuation of its long-standing pursuit of free-trade agreements with bilateral and regional partners, but also a shift in attitude, with the adoption of an arsenal of unilateral, autonomous instruments.

Multilateral initiatives

Despite – or perhaps because of – the difficulties at the WTO, the EU has been very active in trying to forge consensus among WTO

members on reform of WTO rules and practices. It has attempted to resolve the crisis of the Appellate Body, was one of the instigators of the Trade Facilitation Agreement and the Fisheries Subsidies Agreement, and has participated in all WTO plurilaterals and joint statement initiatives among sub-sets of WTO members. The EU has also promoted the greater involvement of the WTO in the discussion on the interplay between trade and industrial policy.

Your predecessors launched new FTA negotiations, but progress has been slow

Bilateral and regional measures¹

The EU has the largest network of bilateral and regional FTAs in the world, which your predecessors sought to widen and deepen. They launched new FTA negotiations with Australia, India and Indonesia, but progress has been slow. An FTA was reached with New Zealand and entered into force in 2024. Updated agreements were also concluded (with Mexico) and ratified (with Chile and Kenya), or negotiated but not concluded (with South Korea and Singapore). Finally, there was a push, without success, to amend a signed but never ratified FTA with the Mercosur countries (Argentina, Brazil, Paraguay and Uruguay). The EU has also concluded digital trade or sustainable investment facilitation agreements with some countries.

By contrast, China and the US have far fewer FTAs and have been far less active than the EU in recent years. China was the engine behind the Regional Comprehensive Economic Partnership agreement (signed in 2020 and implemented in 2022), which counts 14 Asia-Pacific members besides China. Under President Biden, the US has not negotiated new FTAs. However, his administration has concluded a number of partnership agreements with strategically important countries, such as the Indo-Pacific Economic Framework for Prosperity (IPEF) with 13 Asia-Pacific countries. Neither the IPEF nor similar partnerships, however, have so far included a trade component.

A clear motivation for the recent expansion of the EU's FTA network is the current geopolitical situation, which requires security of foreign-market access for EU exporters at a time of uncertainty about the fate

¹ We do not cover the EU's trading relationship with the United Kingdom. The EU has a trade agreement with the UK, but it represents a step back from the UK's previous membership of the EU customs union and single market, and is not comparable to EU trade agreements with other partners, which are aimed at opening up trade.

of the WTO system, and security of access to critical raw materials for EU buyers, especially in the context of the green transition.

Unilateral measures

Like other WTO members, the EU has always used unilateral trade measures to defend its interests, but before the first von der Leyen Commission, it only used trade defence instruments (mainly anti-dumping and anti-subsidy) explicitly allowed by WTO rules.

The Commission has innovated by introducing new autonomous instruments that are not explicitly allowed by WTO rules

The first von der Leyen Commission continued to use traditional trade defence instruments, but has gone further by applying them to new situations, such as imports of electrical vehicles from China. It has also innovated by introducing a vast array of new autonomous instruments, which are not explicitly allowed by WTO rules though they may (or not) be judged WTO-compatible if and when countries decide to launch WTO dispute settlement cases against the EU.

These new autonomous instruments, which were designed mainly in response to the current geopolitical situation and the green transition, fall into two broad categories:

1. Tools designed to defend the EU against unfair practices and aggressive unilateral actions by the EU's trading and investment partners; these can be viewed as an extension of the EU's trade-defence instruments. The new autonomous instruments include the Foreign Investment Screening Mechanism, the Enforcement Regulation, the International Procurement Instrument, the Foreign Subsidies Regulation and the Anti-Coercion Instrument. Although these instruments are not country-specific, it is clear that they are mainly intended to protect the EU from unilateral actions by economically and politically powerful countries, including China and the US.
2. Instruments intended to reduce EU and global carbon emissions. Instruments in this category include the carbon border adjustment measure (CBAM), the Deforestation (Regulation (EU) 2023/1115), and the Corporate Sustainability Due Diligence Directive. These instruments are also not country-specific, but in reality, they will mainly affect Global

South countries, which account for two-thirds of current global carbon emissions – though far less on a *per-capita* basis.

For the most part, these new EU autonomous instruments are not trade instruments *per se* nor did the trade commissioners during the first von der Leyen Commission play a central role in their design. Nonetheless, measures adopted using these instruments will have significant trade effects, potentially leading to WTO disputes or trade retaliation by affected countries.

Challenges

As EU trade commissioner, you will face three main challenges.

The first will be to maintain the EU's commitment to open markets at home and abroad by continuing to adhere to the multilateral rules-based trading system, despite looming political changes in the EU and US. This will not be easy, but it is crucial both for the EU, which is far more dependent on international trade than the United States, and for developing and emerging countries, which need to continue to export in order to develop their economies.

The second challenge will be to continue being able to sign and implement FTAs with important trading partners. The EU-Canada Comprehensive Economic and Trade Agreement (CETA), signed in 2016, is still not ratified by ten EU national parliaments. More worryingly, trade negotiations with three large emerging partners – India, Indonesia and Mercosur – have hit a problem that goes far beyond the usual difficulty in trade negotiations, which is the need to find a compromise between what the EU wants from its partner and the market access it is willing to grant in exchange. These large countries from the Global South are increasingly assertive and unwilling to yield to EU demands mandated by the Lisbon Treaty that EU trade agreements “*be guided*” (Art. 21(1) of the Treaty on European Union) by EU values, which they may not necessarily share. There may, therefore, be a trade-off between geopolitical and economic interests, and values, which the EU will have to grapple with.

Large countries from the Global South are increasingly assertive and unwilling to yield to EU demands

The third challenge relates to the trade and climate issue. During the first von der Leyen Commission, the EU rightly made the green transition one of its strategic priorities. Although the new Commission may have to slow down the implementation of the European Green Deal, the need to meet the net zero emission target will not go away. This means that autonomous instruments such as CBAM will continue to be implemented and will create increasing resentment from Global South countries. Adding a development aspect to the trade and climate issue will therefore be essential to ensure avoidance of trade clashes with the Global South, and above all that they play their part in meeting global climate objectives.

Recommendations

Champion open trade and multilateralism despite the headwinds

Open strategic autonomy became the centrepiece of the EU's geopolitical strategy

Champion open trade and multilateralism despite the headwinds. The first von der Leyen Commission rightly made 'open strategic autonomy' the centrepiece of its geopolitical strategy. The term reflects the EU's desire to chart its own course on the global stage, shaping the world through leadership and engagement, while preserving EU interests and values. The term 'strategic' captures resilience, and to a necessary degree, self-reliance. 'Open' is the counterbalancing factor suggesting that free-trade policies will continue to be the bedrock of the EU approach. The two components of the strategy can and should be married together. There is no either/or dilemma.

Pursuing open strategic autonomy within a vibrant multilateral context is the appropriate insurance policy to avoid sliding towards protectionism. The EU should continue to be the champion of multilateralism. The US is unwilling to play this role, and China is incapable of doing so, so the EU must carry the flag of multilateralism and be the voice of reason at a time when global cooperation is necessary more than ever in recent history, including to fight climate change.

There are two priority areas for it to take the lead in fostering multilateral solutions: security and climate

Continue to facilitate security and climate cooperation

The EU should continue strive to keep channels of communication open across all nations. Realising gains from continuing liberalisation of trade is the platform to better understand gains from cooperation in other fields, such as climate. The EU should assume the role of the instigator in this realm. There are two priority areas for it to take the lead in fostering multilateral solutions: security and climate. Another important area for the EU is digital trade. The unipolar world has been shown to be a fallacy. The question is what is the best forum to discuss conflicting views?

Unilateral action has led and can lead again to a spiral of counter- and counter-counter measures. The world community has paid the price of similar behaviour a few times already. Redressing the WTO adjudicatory function is a priority, but it is only the starting point in the quest to revive multilateralism.

Address geopolitical concerns with appropriate instruments

Industrial policy is making a return everywhere (for good and bad reasons), often on grounds of national security. This trend is difficult for WTO rules and practices to handle, given the sensitivity of the trading system towards legitimate security concerns.

The WTO Subsidies Agreement is outdated and ill-conceived, and adjudication of national security-related concerns has led to increased trade frictions.

Push for WTO reform

The EU should propose a new WTO framework to address the role of state intervention amid geopolitical uncertainty. The EU's long experience in dealing with state aid is unparalleled. Building on this experience, it should propose a new agreement on subsidies that punishes cross-national subsidies (something WTO current rules do not do, despite the considerable importance of global value chains in world trade) and exonerates from liability certain categories of subsidies, including some that seek to fight climate change.

The EU has also gained substantial experience in handling the interplay between its common commercial policy and the 27 national security policies of its member states. There are voices in the global community arguing against any involvement

of the WTO in scrutinising national security invocations by its membership. This is not desirable because of the danger that what constitutes legitimate security concerns will be abused in the slant towards protectionism. But scrutiny should not necessarily entail judicialisation of national security-related disputes at the WTO.

The EU should propose the establishment of a WTO Committee on National Security, where disagreements and disputes can be handled through deliberations seeking to answer questions like: What is the aim pursued? Why were the specific means chosen? Are alternative less-intrusive means reasonably available?

Maximise FTA leverage

The EU could also do the same and more through its FTAs. It could, for example, condition trade benefits on firm commitments to non-aggression. In addition, in relation to the potential trade-off between economic and geopolitical interests and values, especially when dealing with countries in the Global South, the EU should tread carefully to avoid being perceived as wanting to impose its values on others, while continuing to maintain those values. To bridge the potential gap between the EU's values and what partners may be willing to accept, the EU should consider what transitions it is ready to accept from its FTA partners before they can meet its standards, and what financial assistance it could provide to developing countries to help them meet those standards. Finding the narrow path that combines EU interests and values will be crucial to advance the important EU's bilateral trade and investment agenda with countries in the Global South.

The EU should tread carefully to avoid being perceived as wanting to impose its values on others

Resist coercion and adopt de-risking policies

Finally, the EU should not hold back from using its new autonomous instruments against China and the US, should they try to coerce the EU through trade.

The EU can also use WTO rules to adopt policies aimed at de-risking trade. Taxing exports of sensitive material is always possible if the EU has made no WTO export tariff commitments, and the export duty is applied uniformly on all WTO members. An alternative is to block exports to certain members on national-security grounds. Fostering less reliance on China for certain

Respect for WTO rules and the goal of open strategic autonomy can go hand-in-hand

critical products is perhaps desirable and can be achieved using instruments other than trade policy. At the same time, enforcement of multilateral trade rules could help the EU (and others) avoid Chinese export bans on critical products. Assuming China imposes export taxes on certain products, the EU could invoke China's commitments in its WTO Protocol of Accession, which forbids such taxes. If, instead, China imposes (lawful) production quotas on certain products, it will have to manage them without discriminating between domestic and foreign buyers of those products.

Hence, respect for WTO rules and the goal of open strategic autonomy can go hand-in-hand.

Address the trade-climate-development nexus with appropriate instruments

Including developing and emerging countries in the fight against climate change is indispensable; their current share of two-thirds of global carbon emissions will probably increase as their economic development advances.

Inspired by the WTO Agreement on Trade Facilitation, the EU should propose a framework to address trade, climate and development jointly. The priorities for financing green infrastructure projects should be set jointly by donors and beneficiaries. The volume of carbon emissions should be a key consideration in establishing a hierarchy of beneficiaries. Monitoring of compliance with agreed parameters for financing should be a pre-condition for continuation of financing. Financial assistance is important not only to help acceptance of CBAM by developing countries. The fact is that CBAM is neither a sufficient 'stick' nor 'carrot' for the necessary domestic decarbonisation by most EU trading partners. It may be useful, but not more than that. Climate finance, including financial assistance, is far more important.

Coordinate CBAM-like policies

The WTO is also the right place to discuss the modalities of CBAM and similar schemes that other jurisdictions may introduce. In particular, there is a need for an international agreement on the

carbon content of traded products and, more generally, on climate policies and international trade. With such an agreement, there is a risk that CBAM will be challenged at the WTO by some affected countries, or even that some of them adopt countermeasures against EU imports. We would caution the EU against fuelling such a trade war, which would be detrimental to both its trade and climate objectives. Instead, the EU should promote international dialogue and agreement.

The EU could use its FTAs to incentivise trading partners to take the fight against climate change more seriously

But CBAM cannot be addressed only at the multilateral level. The EU should also engage with developing and emerging countries in looking for bilateral or regional approaches to help them shift their production to greener alternatives. For instance, the EU could use its FTAs to incentivise its trading partners to take the fight against climate change more seriously, implement legislation domestically to this effect and propagate a cooperative culture. The EU could make the provision of trade benefits and financial assistance conditional on certain climate targets.

Dealing effectively with the trade-climate-development nexus – at multilateral, regional, bilateral or even unilateral levels – will require greater coherence between EU trade, climate and development policies and therefore greater coordination with your colleagues in charge of these policies.