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NOTE

From:	General Secretariat of the Council
To:	Working Party on Trade Questions
Subject:	Presentation by BusinessEurope to the Working Party on Trade Questions - European Business in a changing global environment

Following the informal WPTQ videoconference of 5 October, delegations will find in Annex presentation made by BusinessEurope¹.

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¹ BusinessEurope, identification number in the EU Transparency Register: 3978240953-79



EUROPEAN BUSINESS IN A CHANGING GLOBAL ENVIRONMENT- THE ROLE OF TRADE

**WORKING PARTY ON TRADE QUESTIONS
5 OCTOBER 2021**

**LUISA SANTOS
DEPUTY DIRECTOR GENERAL**

WHAT I WILL ADDRESS

- Europe in a changing and challenging global landscape
- The COVID crisis- short to medium-term implications
- European competitiveness- some challenges and opportunities
- The role of Trade Policy



Europe in a changing and challenging world

Redistribution of global power- economic and geopolitical centre shifting to the East

- G7 economies today represent 40% of global GDP down from 60% in 1975

World GDP distribution

2019	USA 22,9%	EU 18,3%	China 17%
2050	China 20,4%	USA 14,8%	EU 11,3%



Europe in a changing and challenging world

Redistribution of global power- economic and geopolitical centre shifting to the East

- Implications in terms of defence
- Investment and development of key technologies
- Access to data and relevant information
- Access to finance
- Access to consumers
- Ability to set global rules/standards



Europe in a changing and challenging world

Redistribution of global power- economic and geopolitical centre shifting to the East

Key announcements in the last weeks

- China applied officially to join the CPTPP- the Pacific trade agreement that was initially designed by the USA to counter China's influence in the region
- Aukus- a defence cooperation agreement between Australia, the USA and the UK that could have important implications in the region
- European Commission President announces the new EU's connectivity strategy "Global Gateway" and the European Commission launches also its Indo-Pacific strategy



Europe in a changing and challenging world

Redistribution of global power is creating tensions especially between China and the US

The world based on global cooperation, multilateral rules and institutions and free trade that allowed global value chains to prosper is under threat

- Unilateral measures and protectionism are on the rise
- Multilateral organisations like the WTO- World Trade Organisation are struggling to adjust and remain effective
- Existing multilateral rules are outdated
- Geopolitics and security are superseding economics
- Companies are increasingly being dragged to politics



Europe in a changing and challenging world

At the same time we are facing increasing challenges that demand global solutions and global cooperation

- Climate change
- Pandemics
- Cyber threats
- Rising inequality



COVID-19 short to medium term implications

Consequences in the short term

- Logistic bottlenecks
- Problems to access key materials
- Travel restrictions
- Infrastructure problems
- Increase in costs and rising inflation
- *Increasing trade tensions and export restrictions(?)*

Q: How many of these consequences will be medium to long term?



COVID-19 short to medium term implications

Consequences in the short term

The third-quarter edition of the Deloitte's CFO Signals report, which collected responses in the first half of August, stated that 44% of CFOs indicated supply disruptions have increased costs by 5% or more this year, while 32% said sales have fallen due to delays or shortages (source Bloomberg).

Price surge | Aluminum reached \$3,000 a ton in London for the first time in 13 years amid expectations that supply disruptions are here to stay, while demand keeps rising. Meanwhile, commodities have surged to a 10-year high amid rising costs for goods the world relies on for construction, manufacturing and keeping on the lights. (source Bloomberg).

Volkswagen's truck division Traton said third-quarter sales will be significantly lower than planned and cautioned that it suspects supply bottlenecks will continue in the fourth quarter and into next year (source Bloomberg).

Lights out | Skyrocketing power prices are forcing the vast network of Dutch glasshouses — the continent's biggest — to go dark or scale back, threatening to cut supplies at Europe's fruit and vegetable stalls and flower shops (source Bloomberg).

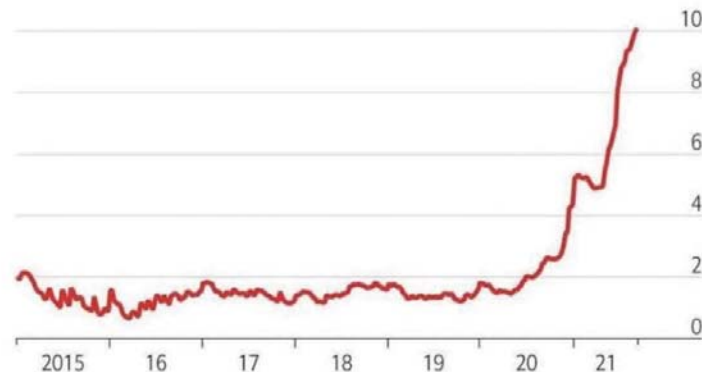


COVID-19 short to medium term implications

Consequences in the short term

Prolonged disruptions to container shipping could reorder global trade

Global container-freight costs*
\$'000 per 40-foot container



*Based on eight major shipping routes

Source: Drewry

The Economist

- **Power** - Europe's benchmark power price traded above 100 euros(\$118) per megawatt-hour for the first time on 13 September, with German electricity prices for next year almost doubling in 2021.
- **Gas** - Benchmark European gas futures traded in the Netherlands soared as much as 7% to 65.57 euros a megawatt-hour.
- **Carbon price** - EU emission permits surged to an all-time high of 63.35euros the week of 6 September and traded around 61 euros 14 September.



COVID-19 short to medium term implications

Consequences in the medium to long term

- Increasing trade tensions and export restrictions
- Stronger role of the state in the economy
- More emphasis on resilience/strategic autonomy
- Security interests increasingly supersede economic interests
- More awareness about the urgency to address some critical global challenges, especially climate change
- Increasing importance of the digital transformation
- More investments in healthcare and preparedness to address pandemics



EUROPEAN COMPETITIVENESS

There are challenges and opportunities for European companies and their competitiveness

Challenges

- Increased competition around the world and not only in lower value-added products
- Ambitious EU goals in key areas like climate change not matched by our key trading partners
- Strong competition to access key raw materials and key technologies
- The rules of the game are outdated
- Managing resources and prioritising investments in key sectors of the future



EUROPEAN COMPETITIVENESS

There are challenges and opportunities for European companies and their competitiveness

Opportunities

- The EU continues to use its trade agreements to shape global rules and standards and open market opportunities for its companies
- The Green Deal is implemented in a way that supports the development of more sustainable technologies, goods and services that could also leverage EU competitiveness around the world
- The EU develops effective and targeted tools that improve the level playing field in the single market and better safeguard EU interests
- The EU is able through public and private finance to support successfully the green and digital transitions
- The EU manages to have a third-party position in the increasing tensions between the USA and China



EUROPEAN COMPETITIVENESS

The balance between challenges and opportunities is very difficult and if not done right the price to pay by European companies will be very high and impact our global competitiveness.

Three examples:

- **Mandatory due diligence legislation**
- **Sustainable finance- taxonomy**
- **Not going ahead with the EU-Mercosur trade agreement**



THE ROLE OF TRADE POLICY

How Trade Policy can leverage opportunities and mitigate challenges for European companies and their competitiveness

Leveraging opportunities

- **Bilateral-** EU continues to pursue an ambitious negotiation agenda- e.g. India, modernisation Chile, conclusion of Mexico
- **Multilateral/Plurilateral-** WTO reform including “competitive neutrality” rules/dispute settlement, further liberalisation for green goods/services, modern rules on e-commerce and digital trade.
- **Improve tools to open third markets-** International Procurement Instrument
- **EU-USA-China-** finding the right balance in the relationship with our two major trading partners. **(a)** Working with the US in areas of common interest through the TTC-Trade and Technology Council and resolving trade disputes, e.g. steel and aluminium; **(b)** Maintaining the dialogue and a positive agenda with China- CAI-Comprehensive Agreement on Investment ratification remains a priority once conditions allow.



THE ROLE OF TRADE POLICY

How Trade Policy can leverage opportunities and mitigate challenges for European companies and their competitiveness

Mitigating challenges

- **Improving the respect of our rights and interests-** e.g. Enforcement Regulation, Market Access Strategy, Anti-Coercion Instrument.
- **Addressing competitive distortions in the EU market-** e.g. Trade Defence Instruments, Instrument on Foreign Subsidies.
- **Making supply chains more resilient-** good balance between diversification(role for trade policy) and increasing capacity/investments(monitor potential overcapacities and national content requirements in public procurement in third countries).
- **Access to technology and data-** broad approach that includes monitoring foreign investment in critical sectors, allow data to flow and address increasing data localisation requirements in third countries, extra-territoriality of third countries' regimes in the areas of export controls and sanctions.
- **Convincing trading partners to do more on sustainability-** mix of tools e.g. FTAs, GSP, possibly CBAM





THANK YOU !