

# **VIGNAYAA R R**

## **POLICY REVIEW: EU Trade Policy Reform**

### **ABSTRACT**

The aim of this policy review is to critically analyze the proposed reforms in the EU trade policy as outlined in the “EU Trade Policy Reform Proposals 2024” by Mathilde Dupré and Stéphanie Kpenou published in the Veblen Institute for Economic Reforms in May 2024. The review further intends to assess how these reforms seek to address the pertinent challenges of climate change, biodiversity loss and social inequalities within the context of international trade especially corresponding to the European Union. The Veblen Institute's policy brief advocates for a substantial shift in EU trade policy that gives ecological and social sustainability priority. It contends that existing trade regulations support unsustainable economic models and limit countries' capacity to enact required reforms and that they obstruct the advancement of sustainability goals. To overcome these deficiencies, the brief outlines five important areas for action. The review will highlight the necessity of aligning trade practices with ecological and social objectives which in turn foster a more sustainable economic model. The readers will be able to gain a comprehensive understanding of the relevance of these proposals to current trade practices, particularly in light of the EU's role as a major global trading entity. It will also equip them to recognize the implications of these reforms for key stakeholders, policymakers, and civil society.

### **POLICY BACKGROUND**

With a sizable portion of global imports and exports, the European Union (EU) has long been a major force in international trade. Albeit, many of its trade policy frameworks have come under scrutiny for its role in perpetuating unsustainable practices that negatively impact climate change, biodiversity, and human rights. Like the EU–Mercosur Association Agreement in 2019 which could potentially undermine EU's environmental commitments under the Paris Climate Agreement and the measures such as the Carbon Border Adjustment Mechanism (CBAM) under the European Green Deal that was announced in 2019 aims to make the EU climate-neutral by 2050 would have unintended consequences for developing nations. As the world struggles with an intensifying ecological crisis there is an urgent need for the EU to reform its current trade policies to better adhere to its sustainability goals and international commitments. The policy brief outlines five key avenues for action for reforming EU trade policy. These include mirror measures on imports to ensure compliance with EU standards, ending the export of products banned within the EU, terminating investment protection through arbitration mechanisms, fostering sustainable partnerships with emerging economies and finally

advocating for reforms in WTO rules to support sustainable trade practices. While addressing the adverse externalities connected with existing trade practices, each of these suggestions aims to uphold EU trade policy's objective of ecological and social transition. These reforms are designed keeping mind the mitigation of the ill-effects of trade on vulnerable communities and ecosystems. This transition also seeks to promote responsible production and consumption patterns that are at the core of international trade. Overall, it represents a necessary step towards achieving these goals which also recognizing the growing interconnectedness of trade, environmental health, and social justice.

Corresponding to the first policy action, the EU has taken steps through the green deal to make goods produced within its borders more sustainable. The Green Deal was announced in 2019, it aims to make Europe the first climate-neutral continent by 2050. During the 2019-2024 mandate, the EU has adopted or revised several essential texts of this deal. Primary goal being to make the goods produced on its territory more sustainable. Specific essential standards have been placed on imported goods like the Carbon Border Adjustment Mechanism designed to address the risk of "carbon leakage" where companies move carbon-intensive production to countries with less stringent climate policies. Nonetheless, there is a sizable gap between European and imported product standards which hurts European producers' competitiveness and compromises the integrity of EU standards, eroding customer confidence. The brief highlights a key provision known as "mirror measures" which are incorporated into European laws that regulate the access to the EU market contingent on adherence to certain fundamental European norms, especially those pertaining to sustainability, the environment, human health, and animal welfare. The piece also identifies the risk of externalization and exportation of unsustainable farming methods as a threat identified in the "Farm to fork" strategy. This strategy basically allows for employment of sustainable food production mechanisms. The policy advocates for capacity building and regulatory mechanisms, including comprehensive assessments, work programs to address discrepancies, and systematic integration of mirror measures. It also suggests lowering maximum residue limits (MRLs) for banned substances, revising customs nomenclature, and ensuring sustainable labeling. The subsequent plan of action is to end the exportation of products like pesticides, single-use plastic products and certain types of motor vehicles. There have been certain regulations that were laid down for the circulation of pesticides in the EU market but it does not apply to pesticides produced in the EU for export to third countries. This results in a situation where European countries continue to manufacture and export pesticides that are prohibited in the EU due to their harmful nature primarily to low- and middle-income countries. This is not only a double standard on the part of the EU but also results in a boomerang effect where the EU consumers are exposed to these very pesticides via residues in imported foods. One of the authors' main

recommendations is to adopt horizontal legislation that restricts exports to LMICs if the products are not approved for use within the EU.

The policy brief also calls for ending investor protection through mediation. The current International Investment Agreements (IIAs) and the Investor-to-State Dispute Settlement (ISDS) mechanism hinder the EU's ability to adopt ambitious climate and social policies. For example, according to the IPCC, fossil fuel companies have challenged climate-related policies through the Energy Charter Treaty (ECT). The UN Special Rapporteur on Human Rights and the Environment has called on States to unilaterally or jointly terminate international investment agreements. By allowing foreign investors to contest domestic laws in international tribunals, ISDS weakens democratic governance and limits states' sovereignty.

Modern EU trade agreements like Trade and Sustainable Development (TSD) and EU-MERCOSUR agreement include commitments to combat illegal deforestation and wildlife trafficking. These require the members involved to comply with international labour standards i.e. ILO and the Paris Climate Agreement. This enables the EU trade policy to evolve towards ecologically and socially sustainable forms of partnerships with developing nations as underlined in the SDG 17 to promote global partnerships. Lastly, the authors rally heavily for bringing revisions back to the table of WTO reformation. Given the growing need to restrict trade in commodities and services that have a substantial impact on the climate, the rules of the multilateral trading system appear poorly adapted and obsolete. There is a push for multilateral rules allowing to reintroduce tariffs on polluting products and international negotiations for adoption of uniform environment standards.

## **REVIEW OF THE POLICY**

Firstly, the policy recognizes and seeks to rectify the competitive disadvantage faced by EU producers who adhere to stringent environmental and health regulations. There is a comprehensive approach that is supported by the policy brief wherein it indicates a holistic approach which is covered under the slew of measures and reforms for exporting countries. Although the strategy recommends expanding financial and resources for customs, there is no specification how these funds will be allocated or how sanctions will be applied effectively. There is a lack of a defined framework for noncompliant importers in the policy which may result in uneven implementation. The policy recommends examining value distribution, but it makes no mention of how this analysis would be carried out or how it will benefit smallholders in a concrete way. The policy does not outline mechanisms for public engagement or stakeholder participation.

The second avenue for action effectively addresses the double standards in the trade policy that helps rectify the ethical inconsistency of production and distribution. Most importantly, the policy reforms align with EU values of human rights, global health, and environmental protection. The economic benefits of green technologies could also be reaped out of these proposals stimulating innovation and reduction in costs as well as benefiting the economies that adopt these technologies. Albeit the policy calls for tightening customs controls, it gives no guidelines for inspections at EU borders. Existing customs systems are already strained, as seen in dual-use goods enforcement challenges. Without rigorous oversight of manufacturing methods, the EU cannot guarantee that pesticide restrictions in low- and middle-income countries (LMICs) are followed. For instance, the strategy doesn't specify how to audit supply chains in developing nations or verify compliance with EU standards. There is also limited public access to data on banned exports.

By withdrawing investment protection, EU trade policy falls in line with social and climate goals, allowing for the implementation of ambitious social and environmental measures without worrying about Investor-to-State Dispute Settlement (ISDS) concerns. There is a strengthening of sovereignty among nations that restores the state's ability to regulate the public interest whilst making sure corporate interests don't override democratic governance. The removal of ISDS may persuade governments to enact robust environmental and social restrictions. The policy does not, however, specify a precise plan for ending or renegotiating current IIAs that contain ISDS clauses, nor does it address whether compensation arrangements would be required.

Alternative dispute resolution procedures, like state-to-state arbitration, could offer a more balanced approach. The European Union is dedicated to helping developing countries mitigate and lessen the effects of climate change which is a good start. This strategy is centered on global climate financing pledges and initiatives such as the Global Climate Change Alliance Plus (GCCA+). Since a substantial portion of climate finance is extended through loans there is a possibility of exacerbation of debt in developing countries. Potential trade-offs between environmental preservation and economic development in partner nations are not covered by the proposals.

Reforming WTO rules aligns trade with broader sustainability objectives showcasing a potential for systematic trade, and are welcomed by hopeful countries to implement climate policies without violating trade obligations. Addressing global challenges are carried out by these reform actions which reflect contemporary environmental challenges and the urgency of climate action and their redressal is the need of the hour. The WTO's consensus on

environmental tariffs and standards faces challenges due to differing economic interests and development levels. Strategies to overcome opposition from countries prioritizing economic growth are lacking. Additionally, there is no discussion on how polluting product tariffs might affect developing countries, which may face difficulties in adapting to new trade rules. The most important aspect of inclusion of public engagement or stakeholder consultation in the design and implementation of WTO reforms is overlooked.

## **CONCLUSION**

In a nutshell, through its trade policy, the EU negotiates and finalizes international agreements on trade issues with non-EU nations in addition to enacting trade laws. The EU's motto one voice on the global stage is reverberated through its trade policy. The union aims to increase sustainable growth and create jobs where more than 30 million jobs in the EU depend on exports of the EU. Strong, rules-based multilateral trading systems, anti-coercion laws, Foreign Direct Investments (FDIs) are key characteristics that drive the 90% of future global growth that is expected to be generated outside Europe's borders. The EU's trade policy reform proposals are a major step in aligning trade practices with the objectives of ecological and social sustainability. This will also aid the EU to close important gaps in current trade regulations. The EU-New Zealand FTA among many other agreements represents a landmark effort to integrate sustainability into trade policy potentially boosting EU exports. The success of these proposals depends on figuring out the implementation challenges and fostering a sense of international cooperation. The policy's effects extend beyond the EU, impacting sustainability initiatives and global trade regulation. In conformity with its pledges to the Paris Agreement and the UN Sustainable Development Goals, the EU can take the lead in advancing a more just and sustainable international trading system by giving priority to these reforms.

## **REFERENCES:**

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