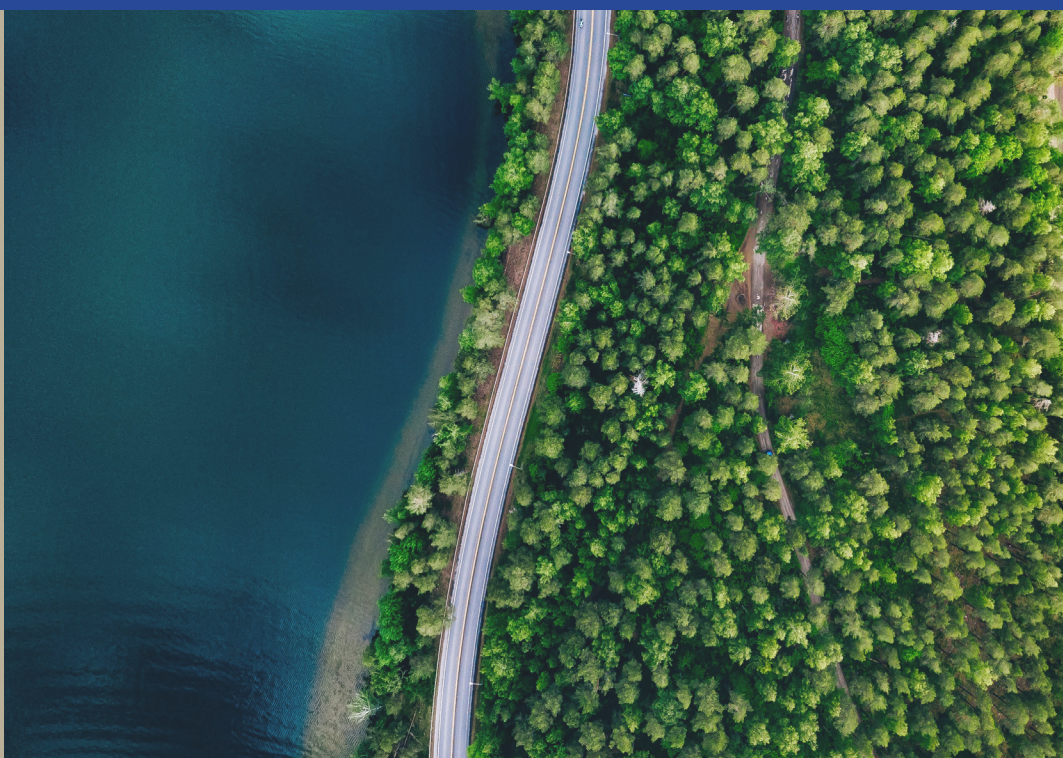




Making the EU Safer, Greener, more Competitive and Digitalised

Trade policy recommendations
to the new European Commission

2024



Preface

International trade plays a pivotal role for EU's future. Geopolitical tensions, armed conflict, trade distortions and climate change all have an influence on EU trade policy under a new European Commission. It is important that policy decisions are evidence-based to support competitiveness, digitalisation, resilience and the green transition.

In this report, we present several trade policy recommendations to the new European Commission. The trade policy recommendations are structured in the following areas: Trade for Security, Trade for Competitiveness, Trade for Climate and Trade and Digitalisation. The recommendations provide input to how the new Commission could promote open and free trade unilaterally, bilaterally and multilaterally.

The authors of this report are Maria Johem and Kim Larsson with appreciated contributions from many experts at the National Board of Trade in different fields. Valuable comments and suggestions from Per Altenberg, Kristina Olofsson and Christopher Wingård are gratefully acknowledged.

Stockholm, April 2024

A handwritten signature in black ink, appearing to read 'Anders Ahnlid', is positioned above the printed name.

Anders Ahnlid
Director-General
National Board of Trade Sweden

Summary

Since a new European Commission will be installed after the European Parliament elections in June 2024, the National Board of Trade has put together external trade policy recommendations to the new Commission with the aim of contributing to the new EU trade policy. We have structured our recommendations within the following areas: Trade for Security, Trade for Competitiveness, Trade for Climate and Trade and Digitalisation.

We are writing these recommendations at a time where geopolitical conflicts, climate change and protectionism are increasing and when it is difficult to achieve both multilateral agreements and free trade agreements. However, the aim of these recommendations is to demonstrate how international trade plays a key role in tackling these global challenges and contributes to economic strength in times of peace and as a lifeline in times of crisis and war. It is therefore important that the EU's future trade policy promotes international trade and the multilateral trading system, whilst also ensuring that the EU's own interests and policy areas do not distort trade flows or create trade barriers for developing countries.

Based on this, our recommendations to the new Commission are:

Trade for Security

- Use trade to strengthen EU security and resilience
- Use the EU's free trade agreements (FTAs) to enhance security and resilience
- Ensure and improve preferential treatment for developing countries to enhance resilience and trade integration
- Ensure that the EU's global competitiveness is not undermined by excessive investment screening

Trade for Competitiveness

- Encourage increased consultation with trading partners with a view to preventing and eliminating Technical Barriers to Trade (TBT)
- Prioritise free trade agreements (FTAs) and other forms of cooperation to build long-term strategic partnerships
- Resolve any trade barriers for imports
- Improve the Union interest test in the analysis of trade defence cases
- The EU Customs Reform should lead to uniform applied rules and further trade facilitation
- Mutually agreed solutions instead of unilateralism

Trade for Climate

- Make the Harmonized System (HS) greener
- Improve market access for green services and expand the definition of 'environmental services'
- Map essential goods and services for the EU's green transition
- Reach an agreement to prohibit fossil fuel subsidies
- Support third countries in the development of carbon pricing systems

Trade and Digitalisation

- Conclude the plurilateral e-commerce agreement in the WTO
- Expand the WTO Information Technology Agreement (ITA3)
- Coordination before digital regulation
- Strengthen cross-cutting regulatory impact assessment in the digital domain

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I. A stronger EU trade policy in times of geopolitical tensions

After the European Parliament elections in June 2024, a new European Commission (henceforth referred to as the Commission) will be installed. EU trade policy is guided by Article 21 of the Treaty of the European Union and the objectives of Article 206 of the Treaty on the Functioning of the European Union (TFEU). According to Article 206, *“...the Union shall contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and on foreign direct investment, and the lowering of customs and other barriers.”*

The purpose of this report is to propose trade policy recommendations to the Commission. The recommendations in this report are our own and do not necessarily represent the position of the Swedish Government.

Trade is a continuous flow of goods, services, capital, data and knowledge, and can easily be distorted by protectionism, geopolitical tensions and conflicts. Since the COVID-19 pandemic, we have witnessed examples of how trade flows have been negatively affected, but also how trade contributes to resilience and security. In the changing geopolitical landscape, trade policy has been neglected due to new security concerns. The EU's new Economic Security Strategy is one example in which valid security concerns are manifested. The strategy, however, lacks any trace of an evidence based-approach to the importance of trade policy for security purposes. Trade and economic integration contribute to security and prosperity and therefore constitute a crucial element for achieving a competitive, secure and resilient Europe.

In recent years it has become difficult to conclude bilateral, regional and multilateral trade agreements. This must not hinder the EU from having an ambitious multilateral trade agenda in the WTO since a multilateral rules-based system is essential for international trade. Thus, it is important that the EU shows leadership and continues to strive for increased international trade cooperation and integration that enhances security, competitiveness, resilience and sustainability.

Our recommendations are based on the EU's trade policy objectives as laid down in Article 206 of the TFEU and the premise that the EU's trade policy should be evidence based and in line with its international commitments, in particular, the WTO agreements. We believe that EU trade policy should contribute to an open, transparent and inclusive trading system that promotes sustainable trade, emphasising trade cooperation and trade integration with third countries, not least, developing countries.

2. Trade for Security

Trade and investment is becoming more restricted to ensure both national and economic security (WTO, 2023a). However, our report (National Board of Trade Sweden, 2021a), demonstrates that openness to trade and investments strengthens the productivity of EU companies. This benefits the EU economically and geopolitically which, in turn, enhances national and economic security. Thus, the EU should promote trade and investment as a tool for security and competitiveness together with like-minded partners, both bilaterally and multilaterally.

2.1 Use trade to strengthen EU resilience and security

The positive role of trade for security is increasingly being overshadowed by concerns about overdependence on foreign suppliers and national security (WTO, 2023a). The EU and other countries are enforcing policy to strengthen different aspects of security at the cost of trade by, for example, imposing import or export restrictions. It is important for the EU to enhance its economic security as it is interlinked with national security. However, we want to underline the importance of an evidence-based trade policy: trade strengthens resilience and economic security. Fragmentation, on the other hand, fails to strengthen security.

Our policy brief (National Board of Trade Sweden, 2023a) shows that an open and diversified import structure improves economic resilience. It is also widely known that trade reduces risk and volatility by enabling diversification. The Commission's (2011) current autonomous tariff suspension and quotas system is not sufficient. To enhance resilience and prevent disruptions of supply chains, it would be more effective to remove the tariffs on imports of intermediate goods (National Board of Trade Sweden, 2023a).

We recommend that the Commission should:

- use trade integration to strengthen EU security and resilience.
- remove all tariffs on raw materials, semi-finished goods and components as it would lead to more resilience, increased transparency, as well as less administrative burden for the EU, including the companies and authorities of Member States.¹

1. Imports of raw materials, semi-finished goods and components are essential for EU companies. According to the Commission's (2011) communication concerning autonomous tariff suspensions and quotas COM (2011) 363 final of 31 December 2011, autonomous tariff suspensions can be granted for a limited period but can be prolonged after a review. Applications take around one year to be processed and not all applications are granted. To enhance resilience and prevent disruption of supply chains, it would be more effective to remove Most-Favoured-Nation (MFN) tariffs.



2.2 Use the EU's free trade agreements (FTAs) to enhance security and resilience

We proposed in our trade policy brief (National Board of Trade Sweden, 2023b) ways to link the EU's network of FTAs more closely in order to form deeper trade integration areas with the EU at its core. In particular, we proposed that the EU should use this approach in relation to FTA partners that are members of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). While it would be desirable for the EU to join the CPTPP, this may not be feasible in the near future. However, EU and CPTPP members could start by linking their rules of origin, geographically extending digital partnerships and establishing mutual recognition agreements to support the green transition. Such collaboration would benefit the EU geopolitically, as it would not only enhance the EU's regional integration but also create deeper trade relations with a wider range of reliable partners, which will diversify EU trade and improve its resilience.

One way to increase economic security and resilience is to use the EU's existing FTAs to a greater extent. Reports shows that EU exporters make use of the FTAs to a lesser extent than exporters in partner countries (National Board of Trade Sweden and UNCTAD, 2018).

We recommend that the Commission should:

- use and link the EU FTAs to enhance security, resilience and competitiveness.

2.3 Ensure and improve preferential treatment for developing countries to enhance resilience and integration

One third of all Least Developed Countries (LDCs) will be in the process of graduating in the coming years and will face trade-related challenges when they lose preferential market access to the EU, as well as other markets. The World Bank is upgrading other countries from lower to higher middle-income countries and these countries will therefore no longer be eligible for preferential market access to the EU under the Generalised Scheme of Preferences (GSP). This will have consequences for future trade relations with the EU.

The remaining GSP countries still require preferential treatment. We are concerned about the potential fundamental changes in the Everything but Arms (EBA) in the GSP scheme currently being negotiated. If the exemptions of goods would be expanded, it could hinder LDCs from fully benefiting from their export potential and would damage the credibility of the system.

Thus, the EU should consider initiating FTA negotiations with countries that are leaving the GSP or are losing EBA benefits. It is important to strengthen bilateral trade relationships as it would benefit all parties. For example, the EU should strive to facilitate the export opportunities of developing countries as it would also help the parties to diversify its trade and improve its security and resilience.

We recommend that the Commission should:

- protect EBA from erosion by respecting its founding principle and allowing no exemptions, other than arms and ammunition, from duty-free market access for LDCs.
- uphold the level of tariff concessions in the GSP system and ensure that the resources that are freed when countries or product lines are graduated, are directed at the remaining countries covered by the GSP.
- help graduating LDCs to transfer directly into GSP+, through both the design of the scheme and through bilateral support and Aid for Trade.
- create deeper trade relations with a wider range of trading partners, such as graduating LDCs, to diversify EU trade and improve its security and resilience.

2.4 Ensure that the EU's global competitiveness is not undermined by excessive investment screening

Europe is dependent on foreign investment to tackle contemporary challenges such as the green and digital transition, just as it needs to enable European companies to expand into foreign markets. Modern investment agreements can contribute to establishing an attractive and predictable investment environment. However, security policy considerations have become increasingly dominant in economic policymaking – as manifested in the Commission's (2023) Economic Security Strategy. The Commission should ensure that the implementation of its Economic Security Strategy does not overshadow the economic benefits of foreign direct investment (FDI) for the EU's global competitiveness.

We believe that the Commission needs to take stock of its achievements in its international investment policy.² In order to achieve this, we need to better understand the impact of in and outbound FDI screening on economic and technological development to ensure that the EU policies are based on evidence and data. The EU must also study the effectiveness of such policies in addressing identifiable security concerns.

While the screening of inbound FDI is necessary to adequately consider and address valid security risks, such screening should not excessively obstruct the economic benefits associated with FDI, such as productivity growth, job creation, innovation and competitiveness. Our report (National Board of Trade Sweden, 2023c) identified a strong correlation between foreign ownership and productivity growth in which productivity rises an average of 10 per cent in companies that become foreign owned. Thus, excessive focus on screening and controlling both in and outbound FDI risks overshadowing the economic benefits and could negatively affect the EU's global competitiveness, for example, stifling technological development and the green transition. This, in turn, could aggravate existing economic security risks and create new economic security risks.

From our perspective, the current Regulation on 2019/452 on the screening of foreign direct investment (FDI Act) has two important flaws, which should be addressed in the forthcoming updated regulation on the screening of foreign investments. First, although the current version of the FDI Act recognises the benefits of FDI, it fails to explicitly encourage to consider the economic impact of FDI at the EU level and domestic level when screening investments. Secondly, investment screening in the Union should be sufficiently harmonised in order to mitigate security risks derived from a fragmented legislative investment landscape in the Union. Although it must not result in an overly excessive administrative burden for either the Member States screening authorities or the foreign investors.

We recommend that the Commission should:

- conduct a quantitative study on a bi-annual basis with the aim of highlighting the economic effects that FDI generates in the Union, and how the use of investment screening mechanisms in Member States has affected FDI into the Union.
- amend Regulation 2019/452 on the screening of foreign direct investment to explicitly encourage Member States to conduct economic impact assessments when screening FDI.
- harmonise national screening frameworks whilst not causing an overly excessive administrative burden for neither the Member States screening authorities nor the foreign investors.

2. European Commission, *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions - Towards a comprehensive European international investment policy*, COM (2010) 343 final of 7 July 2010.

3. Trade for Competitiveness

Our reports (National Board of Trade Sweden, 2023d; National Board of Trade Sweden, 2023e) show that productivity and economic growth benefit from international trade. During the last 20 years, GDP growth in Europe has decreased significantly, partly due to a decline in productivity growth. Thus, the EU needs to enforce a trade policy that facilitates and stimulates international trade and investment to strengthen competitiveness. This includes continuously working towards concluding FTA negotiations with partners as this will strengthen the EU's competitiveness both regionally and internationally.

3.1 Encourage increased consultation with trading partners with a view to preventing and eliminating Technical Barriers to Trade (TBT)

Many of the EU's external trading partners experience difficulties with harmonised EU legislation when trading with companies within the EU. This has also been shown to have a negative effect on European companies. Evidence for this can be found, for example, in discussions in the WTO TBT Committee, where it has been raised that EU legislation³ is overly burdensome and difficult to comply with.

If the EU were to consider input on the conditions and challenges experienced by trading partners at an earlier stage and to a greater extent during its legislative processes, it would not only increase the transparency and enhance the understanding of the legislation, but TBT could also be prevented at an earlier stage.

We recommend that the Commission should:

- consider the impact on producers and exporters in third countries during the EU's legislative processes by, for example:
 - notifying trading partners at an earlier stage via the WTO ePing⁴ system during the legislative process,
 - reviewing its existing toolbox on Regulatory Impact Assessment to including the effects on EU external trade horizontally,
 - extending and promoting the use of the EU's existing tools for public consultations to third countries,
 - incorporating review provisions⁵ in the new legislation as a complement to the REFIT programme and Fit-for-Future platform.

3. For example, the Deforestation Regulation (Regulation (EU) 2023/1115) and Plant protection substances (Regulation (EC) No 1107/2009).

4. It is currently only possible to notify other countries via the e-Ping system regarding legislation concerning the TBT Agreement and the SPS Agreement.

5. For example, Article 34(6) of the EU's Regulation on making available on the Union market and the export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010 states that the Commission shall carry out a general review of this Regulation which shall particularly include an evaluation of the impact on least developed countries.

3.2 Prioritise free trade agreements (FTAs) and other forms of cooperation to build long-term strategic partnerships

According to our report (National Board of Trade Sweden, 2021a), the EU's FTAs constitute important platforms to cope with geopolitical challenges, whilst promoting competitiveness, sustainability, resilience and diversified trade relations. In line with the Commission's (2021) Trade Policy Review, the FTA agenda should be given high priority to build strategic partnerships with like-minded partners.⁶ In addition, the EU's ongoing negotiations⁷ should be concluded as quickly as possible. Also, the EU should upgrade its terms with trading partners in its immediate neighbourhood such as Norway, to simplify customs procedures and facilitate agri-food trade.

While we support the EU's ambition of concluding deep and comprehensive FTAs, the EU must also show flexibility. There is no one-size-fits all solution and the EU must apply different approaches and levels of ambition depending on the negotiating party, in other words, the EU must adjust its ambitions. A building block approach to FTAs could be more applicable to trading partners that have significantly divergent positions compared to the EU. For example, such FTAs could be built over time and gradually be developed to a higher level of ambition, but their foundation must still be compatible with the provisions of the WTO.⁸ The building block approach should be done in small incremental steps to reach long-term strategic partnerships. Ideally, these gradual developments should also be applied to the EU's existing FTAs (including EPAs), instead of updating and modernising an entire agreement, as was the case for the EU-Chile agreement, since such a process is both extensive and time consuming.

While FTAs are the most preferable option, the EU could also consider using other forms of cooperation that would have positive effects on trade. The objective would then be to build trust over time while reaping benefits that would be possible under a more limited arrangement. Trade and Technology Councils (TTCs), digital partnerships and Investment Facilitation Agreements (IFAs) with potential trade partners are examples of this kind of approach. By establishing new fora for trade cooperation in addition to the FTA agenda, the EU can strengthen its global competitiveness.

We recommend that the Commission should:

- conclude and upgrade FTAs, using a building block approach, in order to build long-term strategic partnerships.
- apply different approaches and adjust the level of ambition depending on the negotiating party.
- explore and establish new trade arrangements that could increase the EU's trade cooperation in addition to its FTA agenda.

6. COM (2021) 66 final of 18 February 2021 states that "...the EU will need to diversify its relations and build alliances with like-minded partners, including through its broad network of trade agreements...The EU's free trade agreements (FTAs) are platforms for enhanced cooperation pursuing our values and interests. They are the basis for engagement with important markets and countries around the world, particularly in the Asia-Pacific region, in Latin America and the Caribbean."

7. The EU is for example currently negotiating FTAs with Mercosur, Australia, India, Indonesia, Malaysia, Philippines and Thailand.

8. Article XXIV of the GATT 1994 and Article V of the GATS states that "...a PTA must cover substantially all trade in goods and/or have substantial sectoral coverage of services."



3.3 Resolve trade barriers for imports

The Commission is working actively to identify and resolve trade barriers on *exports* to third countries. This important work and the removal of trade barriers on exports between 2017 and 2021 has helped to unlock an additional EUR seven billion in EU exports in 2022 (European Commission, 2023b). However, the system for identifying trade barriers could be improved since the Commission does not consider trade barriers on *imports* into the EU in an active and systematic way. Focusing on trade barriers on imports is also important since imports contribute to the EU's overall competitiveness and export opportunities.

The Commission should also improve the system of exchanging information on trade barriers between EU delegations and the embassies of Member States to resolve trade barriers on imports and exports. This would allow the Commission and third countries authorities to gain a more comprehensive overview of the existing trade barriers and address them bilaterally. Sweden has a developed method whereby its government authorities exchange information with their embassies abroad about both import and export trade barriers. This method could serve as an EU template.

We recommend that the Commission should:

- broaden the Single Entry Point to all stakeholders who face trade barriers when importing products from third countries.

3.4 Improve the Union interest test in the analysis of trade defence cases

Trade defence measures such as anti-dumping and anti-subsidy can have profound negative effects on the economy as they make sourcing from third countries more costly and result in higher prices for the product in question when it is sold on the internal market. Nevertheless, in determining whether to impose trade defence measures,⁹ the Commission particularly emphasises interests of the (complainant) Union industry but ascribes limited relevance to the interests of Union users, such as importers and consumers, as well as to the environmental and climate impacts of the trade defence measures. Generally, users and importers only become aware of trade defence measures once they are already in force, and when it is too late to have their interests considered in the trade defence investigation.

Although justified in its function of shielding the Union industry from perceived unfair trade practices, the current set up for trade defence measures is vulnerable to be abused for protectionist purposes and can lead to significant welfare losses. In addition, trade defence measures have also been applied in the EU in relation to several climate-related products such as bioethanol, solar glass, solar panels and glass fibre, making the green transition more costly. Our reports have highlighted several negative economic effects of trade defence measures (National Board of Trade Sweden, 2021b; National Board of Trade Sweden, 2022; National Board of Trade Sweden, 2012). This indicates that the current application of the Union interest test is insufficient to avoid such negative effects. We therefore see a need for an improved Union interest test.

We recommend that the Commission should:

- review and improve how the methodology of the Union interest test is performed in the analysis of trade defence cases by placing greater emphasis on the:
 - Union stakeholders other than a protected industry,
 - value of the trade that is potentially affected,
 - environmental and climate impacts of the trade defence measures and,
 - welfare effects of introducing a trade defence measure in which the analysis also presents an overview of the interests of the relevant EU stakeholders (importers, users and consumers), even when such parties have not submitted comments to the Commission as part of a trade defence investigation.

9. For further information, see Regulation (EU) 2016/1036 of the European Parliament and of the Council (anti-dumping measures) and Regulation (EU) 2016/1037 of the European Parliament and of the Council (anti-subsidy measures).



3.5 Ensure that the EU Customs Reform leads to uniformly applied rules and further trade facilitation

The EU is currently negotiating a new EU Customs Reform, even though the existing customs legislation, Union Customs Code (UCC), has not yet been fully implemented. One of the problems with the UCC is that it is not uniformly applied and that this distorts the trade flows of EU companies. The Commission must therefore ensure that the existing UCC is uniformly applied in all Member States before the EU puts all its focus on the reform. It is also important that the new EU Customs Reform makes trade facilitation a key issue and does not only focus on control. For example, by keeping the EUR 150 threshold, EU consumers would benefit. The establishment of an EU Customs Authority could lead to the uniform application of the rules. Furthermore, it must be ensured that the EU Customs Data Hub is secure and does not negatively impact EU trade with third countries.

We recommend that the Commission should:

- enforce the effective and uniform application of the existing UCC in all Member States,
- keep the EU's de minimis threshold for customs duties at EUR 150,
- ensure that the new EU Customs Reform creates opportunities for and encourages efficient and smooth trade facilitation when importing into and exporting out of the EU and that use of the Customs Data Hub does not entail major costs for EU companies.

3.6 Mutually agreed solutions instead of unilateralism

In recent years, the EU has begun to rely more on unilateral trade-related regulations. The EU's strategy of mutual cooperation for mutual benefit has created tremendous political and economic benefits. This lesson still applies and must not be undermined. We should therefore return to trade policies that are based on economic integration and mutually agreed solutions. Under a new Commission, the EU should impose strict requirements for unilateral trade measures. Such measures should not be imposed without first assessing:

- the magnitude of the economic distortion that the measures are intended to rectify,
- their effectiveness in achieving the stated objectives,
- any potential conflict with the sustainable development goals,
- their wider economic effects (including on productivity, competition, EU consumer welfare, downstream and upstream EU industries),
- administrative costs for companies, particularly SMEs and,
- whether the measures are likely to produce countermeasures by other countries.

Assessments of the wider economic effects should be based on established methods used in economics, such as general equilibrium analysis. Unilateral measures must also conform to international agreements and general principles of EU law, including requirements that they are accurate, transparent, proportional to their purpose, limited in purpose and scope, and allow for legal recourse.

We take note of the increasing demand for the application of EU production standards for imported agricultural products in order to create a level playing field for EU producers. The principles described above are also relevant for these cases. It is therefore important that the new Commission maintains the approach outlined in the previous Commission's (2022) report on the application of EU standards on imported agricultural products, i.e. that before introducing any such measures it is essential to make a case-by-case assessment.

Finally, with respect to the overall increasing administrative burden of EU companies, we note that in Ursula von Der Leyen's 2023 State of the Union address, she committed to reducing EU reporting obligations by 25 per cent. The commitment to reduce the administrative costs of EU regulations should also apply to trade policy. This can be achieved by adopting some of the recommendations in this report, for instance, by removing tariffs on raw materials, semi-finished goods and components, and streamlining customs procedures.

We recommend that the Commission should:

- apply strict requirements for unilateral trade measures,
- reduce the administrative costs of EU trade-related regulations.



4. Trade for Climate

Tackling climate change requires unilateral, bilateral and multilateral solutions. However, WTO members have attempted to negotiate an agreement on environmental goods and services on several occasions but, thus far, have not succeeded. We therefore argue in our report (National Board of Trade Sweden, 2021c) that the EU should strive to liberalise climate-friendly goods and services and reform fossil fuel subsidies as this would contribute to reduce greenhouse gas emissions.

4.1 Make the Harmonized System (HS) greener

The Harmonized Commodity Description and Coding System (HS) is used by more than 200 countries around the world to classify goods uniformly and create a basis for customs tariffs and international trade statistics. One of the challenges of addressing important climate-related or environmental goods or technologies is that in most cases, these types of goods are not identified separately under an HS code, as highlighted in our report (National Board of Trade Sweden, 2020).

The World Customs Organisation (2022) held several symposiums from 2022 to 2023 to create an opportunity to make the HS greener. However, there are still many challenges when identifying these kinds of goods. The HS system is updated every five years, although the next version will be the HS2028, instead of HS2027. Since the review cycle is long, it is too late to file new proposals at this stage. However, more work needs to be done in this area.

We recommend that the Commission should:

- engage in the work of greening the HS. This work should be increased towards the HS2033¹⁰ to support environmentally sustainable trade and ensure that the relevant goods can be more effectively targeted in trade negotiations and trade analysis.

10. The Commission will probably need proposals to the HS2033 by latest 31 December 2028.

4.2 Improve market access for green services and expand the definition of ‘environmental services’

The transition to a greener and more sustainable economy is not proceeding at a fast enough pace. Trade can play a key role in accelerating the transition by reducing costs and spreading innovations. However, fully harnessing the benefits of trade requires addressing the barriers to trade in services that are important for climate action. Two of the key issues are lowering the barriers to trade in services related to climate-smart goods and expanding the narrow definition of ‘environmental services.’

Goods manufacturers often offer a ‘package’ comprising both goods and services. Thus, it is not only important that EU companies are able to offer the best ‘packages’ and have access to the best services to stay competitive in high tech, climate-smart sectors such as renewable energy, but also to fully utilise circular EU initiatives such as the ‘Right to repair’. If these competitive advantages are to materialise, both the EU and important trading partners should commit to new market access obligations for services that are key to climate action. When discussing market access commitments, it is important to emphasise the climate change mitigation effects of green services (National Board of Trade Sweden, 2023f; National Board of Trade Sweden, 2021c; National Board of Trade Sweden, 2020).¹¹

To make these market access obligations even more meaningful, it would be beneficial if the existing definition of ‘environmental services’ could be expanded, as the current classification system¹² that is used to define ‘environmental services’ for trade purposes is decades old and is limited to sanitation and waste disposal. In other words, it fails to include many services that are key to climate action, such as those services related to renewable energy systems or climate-improving/proofing buildings.

We recommend that the Commission should:

- negotiate better market access for green services both bilaterally through its already existing and future FTAs and multilaterally in the WTO and,
- in this negotiating context, the definition of ‘environmental services’ should be updated and broadened, for example, by using a cluster approach (National Board of Trade Sweden, 2021c).

11. We have analysed climate smart goods and services and the link between the two in the cited reports.

12. The United Nations Central Product Classification (CPC).



4.3 Map essential goods and services for the EU's green transition

Since the stalled Environmental Goods Agreement (EGA) negotiations in 2016, the international community has lost momentum in listing and liberalising trade in environmental goods, including climate-related goods.

While the EU should be a constructive partner in the ongoing Trade and Environment Sustainability Structured Discussions (TESSD) and potential future plurilateral and multilateral negotiations, it does not prevent Member States from taking further steps to facilitate trade, where possible. Such initiatives are already being taken by the EU-US Trade and Technology Council (TTC), in which the Commission has requested Member States to provide input on specific products (HS codes) and/or sectors for a possible new annex on certain environmental goods to the existing bilateral agreement on mutual recognition for conformity assessment procedures.

We welcome this initiative. However, we believe it should be implemented systematically and on a larger scale. To the best of our knowledge, there is currently no *comprehensive* overview – mapping – of the products and services needed in Member States to accelerate the green transition, including electrification, in sectors such as transportation, industry and energy production.

By conducting a comprehensive overview of the value chains for essential goods and services that support the green transition, the Commission and its Members States could more effectively take initiatives to facilitate trade, eliminate and prioritise trade barriers, and avoid imposing new restrictions on these goods and services. A comprehensive list could also be a solid basis for the EU to seek access to these goods and services through its bilateral, plurilateral and multilateral trade negotiations. Existing mappings (see e.g. National Board of Trade Sweden, 2020; WTO, 2023b) of specific value chains could serve as inspirational examples and support a comprehensive list of environmental goods and services.

We recommend that the Commission should:

- invite Member States to identify and share information on essential goods and services in those value chains that support the green transition and thereafter compile a comprehensive overview.



4.4 Reach an agreement to prohibit fossil fuel subsidies

The proliferation of fossil fuel subsidies is having a detrimental effect on the environment, international trade and the fiscal capacity of governments. These subsidies create an excessive demand for fossil fuels by lowering the (relative) price and impacting the financial situation of governments. Trade distortions arise when subsidies distort competition and create inefficiencies in global value chains, or when subsidies impact market access through local content requirements. The WTO's discussions on the Fossil Fuel Subsidy Reform put the subject on the global agenda but we believe that more needs to be done to address this issue.

The creation of a binding and enforceable agreement that disciplines fossil fuel subsidies is an important first step, as argued in our report (National Board of Trade Sweden, 2021c). The approach taken in the WTO Agreement on Agriculture, or the WTO Agreement on Subsidies and Countervailing Measures, could be used to design an agreement specifically aimed at fossil fuel subsidies. The enforcement mechanism should then consider both the trade and emission effects of the subsidies.

We recommend that the Commission should:

- push within the WTO, for an agreement that includes binding and enforceable disciplines that prohibit as many fossil fuel subsidies as is politically feasible. This would also support the transition away from fossil fuels, as agreed at COP28.

4.5 Support third countries in the development of carbon pricing systems

We note the criticisms and concerns that have been raised by several countries in different international trade fora regarding the EU's Carbon Border Adjustment Mechanism (CBAM). However, carbon pricing is an effective tool to include the external costs associated with carbon emissions into the decision-making process of emitting actors. There are currently 73 carbon pricing systems in effect globally covering 23 per cent of global greenhouse gas emissions (World Bank, 2023). Carbon pricing along the lines of a cap-and-trade system such as the EU Emission Trading System (ETS) can assist governments around the world to achieve decarbonisation, while also generating revenue for climate mitigation and adaptation projects. However, differences in the design of these carbon pricing systems can lead to the fragmentation of global value chains and higher compliance costs for businesses.

We therefore welcome the Commission's (2024) announcement that it will set up a dedicated taskforce to encourage and support other countries interested in introducing or improving their domestic carbon pricing system. The taskforce could also hopefully reduce and address the concerns raised by other countries on CBAM. This taskforce should therefore be established as quickly as possible since a well-designed carbon pricing system can contribute to decarbonisation for any country at any level of development.

We recommend that the Commission should:

- promptly establish the carbon pricing taskforce so it can proactively collaborate with and support third countries in the development and design of their national carbon pricing systems.

5. Trade and Digitalisation

Digitalisation is changing trade policy and the way in which we trade goods and services (OECD, 2024). Thus, the EU should conclude, update and broaden the existing plurilateral and multilateral agreements in line with the development of digital trade. The EU must also conduct thorough impact assessments before introducing new digital legislation in order to ensure harmonisation.

5.1 Conclude the plurilateral e-commerce agreement in the WTO

Digitalisation has fundamentally changed the international trade landscape. This new reality poses a major challenge to the current global trade framework. There is a clear need for new global rules governing digital trade, and the Joint Statement Initiative (JSI) on e-commerce is an important step towards achieving that goal.

The negotiations are in their final stages, and several issues have now been ‘parked’ and concluded, while articles where consensus is unlikely have been left for further discussions. There is now a proposal from the co-convenors to have an ‘early harvest’ agreement and leave issues such as data flows and source code for a second phase of negotiation.

We recommend that the Commission should:

- actively engage in concluding the negotiations as quickly as possible,
- ensure that the development aspects are reflected in the final agreement,
- investigate the possibility of adding an article that encourages a phase two agreement.



5.2 Expand the WTO Information Technology Agreement (ITA3)

Access to digital technology is crucial for the ongoing transformation of the global economy to achieve the Sustainable Development Goals (SDGs) and it has the possibility to lead to more inclusive and sustainable production, as well as spurring innovation and the diffusion of technology. One example of an important contribution to facilitate the digital transformation is the WTO's plurilateral agreements; *the Information Technology Agreement* (ITA) and *the Expansion of Trade in Information Technology products* (ITA2). These eliminate the Most-Favoured-Nation tariffs on the covered goods when they are imported into countries that participate in the agreements. However, the digital transformation has continued to evolve at a fast pace, and the time might be right for yet another expansion of the ITA. This is a key message in our report (National Board of Trade Sweden, 2024), in which we have identified several examples of goods related to digital technology that are not covered by the agreements.

We recommend that the Commission should:

- propose a discussion about a new expansion, ITA3, in the WTO's ITA Committee to ensure that the ITA continues to support the digital development,
- propose that the possibility to use ITA3 as a tool to promote the SDGs is explored in informal meetings in the WTO, for example, starting with the digital tools used in the agricultural sector before MC14.
- address barriers to trade in indispensable services to fully realise the benefits of any new zero tariff agreements since the sale of goods and services is deeply intertwined in many sectors.

5.3 Coordination before digital regulation

Barriers to digital trade are on the rise globally. However, we have noted different approaches, based on societal values and national policies, to regulating new technologies such as AI, the Internet of Things (IoT), Blockchain, robotics, 3D printing, nanotechnology, augmented and virtual reality. However, these technologies are inherently international and require global policy responses to previously unregulated areas. The EU-US Trade and Technology Council (TTC) addresses some aspects, but a clear trade perspective is missing in these discussions.

In order to have the right building blocks for future regulation, we need shared principles and frameworks and we also need a structured way of harnessing the trade perspective in digital policy. This could contribute to foster interoperability and limit the emergence of market access barriers in digital trade.

We recommend that the Commission should:

- establish a taskforce/forum with key partners such as the US, Japan, Asia-Pacific and the UK to enhance regulatory dialogue in new and rapidly growing fields such as digital technologies, with a focus on avoiding future trade barriers. The taskforce could work with “soft law” innovative instruments such as policy labs, regulatory sandboxes, codes of conduct and guidance on best practice.

5.4 Strengthen cross-cutting regulatory impact assessment in the digital domain

The rapid development of new digital regulations entails several aspects that need to be taken into account, such as product safety, cyber security, resilience and privacy. This, in turn, has led to the rapid development of new digital regulatory frameworks within the EU. If the frameworks fail to systematically address these aspects, it could result in overlapping or conflicting regulations that are difficult for companies to apply.

The rapid development of digital regulations risks not only lead to increased fragmentation and trade barriers in the Single Market but may also weaken the EU's role as a competitive trading partner. Countries and individual companies may take a step back and reconsider the EU as an export destination or as a trading partner. Thus, the EU needs to create a more holistic view of the accumulated effects of its regulations in the digital domain. It also needs to ensure that its system for technical harmonisation, i.e. the basis for the regulation of goods, standards and compliance, returns to being as clear and straightforward as it was before.¹³

We recommend that the Commission should:

- strengthen its internal coordination and cross-cutting impact assessments, which take several dimensions into account, such as product safety, cyber security, resilience and privacy, before introducing new legislative proposals to get a more holistic view of the accumulated effects of the EU's digital regulations. Such impact assessments should pay particular attention to:
 - how digital regulations could affect EU companies and their suppliers,
 - the impact on EU trade with third countries,
 - the role that standards play for digital innovation and,
 - how regulatory concerns may be followed up and controlled by market surveillance in a verifiable manner.

13. For further clarification, see National Board of Trade Sweden (2023g), *Innovation, AI, Technical Regulation and Trade – Questioning the Invisible Hand in the Digital Economy*, [Innovation, AI, Technical Regulation and Trade | Kommerskollegium](#).

6. Concluding remarks

Even though the current global geopolitical situation has resulted in a stronger focus on national and economic security, independency and sustainability, we must ensure that trade openness and economic integration continues to support such objectives. We would like our trade policy recommendations to influence the Commission's trade policy to become more secure, competitive, green and digital by striving for new market access and deeper economic integration with our trusted partners. Thus, we would like to highlight three key points that are reflected in our recommendations.

First, the Commission should strive for a strong, open and fair multilateral trading system that is also up to date with new innovations and technologies, digital products and services. The Commission must take a leadership role in the WTO, including involving other members in the WTO work since it is essential for the multilateral trading system. It is crucial that the EU ensures that the WTO moves forward on issues such as sustainability, harmful subsidies, services, as well as a permanent solution for the e-commerce moratorium. This also requires that the processes are transparent and inclusive for all members, including developing countries.

Second, it is important that the Commission considers the impact of its unilateral measures and trade legislation on EU trading partners and third countries, especially developing countries. This should be done by conducting more thorough regulatory impact assessments (RIAs) in which special consideration should be given to the wider economic effects (i.e. including the effects on productivity, competition, EU consumer welfare), their effectiveness in achieving the stated objectives, their potential conflict with the SDGs, and the administrative costs for companies, particularly SMEs. The RIAs should also explain in more detail how EU legislative proposals relate to the WTO agreements as this would strengthen the EU's credibility in the WTO.

Third, the Commission must conclude the ongoing FTA negotiations as these will help the EU to diversify its trade and achieve more resilience and economic security. A more flexible approach could be used to conclude the FTA negotiations. In addition to the FTA agenda, the Commission should also work to explore other types of international cooperation, such as establishing new types of regulatory cooperation and taskforces or join existing strategic partnerships that could still increase the EU's trade with its partners, even though this might not be to the same extent.

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Sammanfattning på svenska

Summary in Swedish

En ny EU-kommission kommer att tillträda efter Europaparlamentsvalen i juni 2024. Kommerskollegium har tagit fram rekommendationer till den nya EU-kommissionen i syfte att bidra till EU:s framtida yttre handelspolitik. Vi har strukturerat rekommendationerna inom följande områden: Handel för säkerhet, Handel för konkurrenskraft, Handel för klimat samt Handel och digitalisering.

Vi skriver dessa rekommendationer i en tid som präglas av geopolitiska konflikter, klimatförändringar och ökad protektionism och när det är svårt att slutföra både multilaterala avtal och frihandelsavtal. Med dessa rekommendationer vill vi belysa att internationell handel spelar en viktig roll för att motverka dessa utmaningar. Internationell handel bidrar också till ekonomisk säkerhet under fredstid och som en livlina under kris och krig. Därför kommer det bli viktigt att EU:s framtida handelspolitik främjar internationell handel och det multilaterala handelssystemet samtidigt som man säkerställer att EU:s egna intressen och politikområden inte snedvrider handelsflöden eller skapar handelshinder.

Utifrån detta, är våra rekommendationer till den nya EU-kommissionen:

Handel för säkerhet

- Använd handel för att stärka EU:s säkerhet och resiliens
- Använd EU:s frihandelsavtal (FTAs) för att förbättra säkerhet och resiliens
- Säkerställ och förbättra utvecklingsländer preferensutnyttjande och handelsintegrering för stärkt resiliens
- Säkerställ att EU:s globala konkurrenskraft inte undermineras av alltför långtgående investeringsgranskning

Handel för konkurrenskraft

- Främja ökat samråd med handelspartners i syfte att hindra och motverka tekniska handelshinder (TBT)
- Prioritera frihandelsavtal (FTAs) och andra typer av samarbeten för att bygga långsiktiga strategiska partnerskap
- Lös handelshinder för import
- Förbättra prövningen av "unionsintresset" i analysen av handelspolitiska skyddsinstrument
- Säkerställ att EU:s reform av tullunionen leder till harmonisering och ytterligare handelsförenklingar
- Nå gemensamma överenskomna lösningar i stället för unilaterala

Handel för klimat

- Gör det Harmoniserade Systemet (HS) grönare
- Förbättra marknadstillträdet för gröna tjänster och utvidga definitionen av miljötjänster
- Kartlägg nödvändiga varor och tjänster för EU:s gröna omställning
- Nå ett avtal som förbjuder fossila bränslesubventioner
- Stötta tredje land med deras utveckling av system för prissättning av koldioxid

Handel och digitalisering

- Slutför de plurilaterala e-handelsförhandlingarna i WTO
- Utvidga WTO:s Informationsteknikavtal (ITA3)
- Koordinering innan digital reglering
- Stärk de gränsöverskridande konsekvensanalyserna inom det digitala området

The National Board of Trade Sweden is the government agency for international trade, the EU internal market and trade policy. Our mission is to facilitate free and open trade with transparent rules as well as free movement in the EU internal market.

Our goal is a well-functioning internal market, an external EU trade policy based on free trade and an open and strong multilateral trading system.

We provide the Swedish Government with analyses, reports and policy recommendations. We also participate in international meetings and negotiations.

The National Board of Trade, via SOLVIT, helps businesses and citizens encountering obstacles to free movement. We also host several networks with business organisations and authorities which aim to facilitate trade.

As an expert agency in trade policy issues, we also provide assistance to developing countries through trade-related development cooperation. One example is Open Trade Gate Sweden, a one-stop information centre assisting exporters from developing countries in their trade with Sweden and the EU.

Our analyses and reports aim to increase the knowledge on the importance of trade for the international economy and for global sustainable development. Publications issued by the National Board of Trade only reflect the views of the Board.

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