MAY 2020

INTERNATIONAL TRADE NEWSFLASH

Fecc
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Economic impact of COVID-19

COVID-19 - Economic impact assessments from EU and WTO

1) **The EU Commission´s Spring 2020 Economic Forecast** of 6 May projects that the euro area economy will contract by a record 7¾% in 2020 and grow by 6¼% in 2021. The EU economy is forecast to contract by 7½% in 2020 and grow by around 6% in 2021. Growth projections for the EU and euro area have been revised down by 9% compared to the Autumn 2019 Economic Forecast.

The shock to the EU economy is symmetric in that the pandemic has hit all Member States, but both the drop in output in 2020 (from -4¼% in Poland to -9¾% in Greece) and the strength of the rebound in 2021 are set to differ markedly. Each Member State's economic recovery will depend not only on the evolution of the pandemic in that country, but also on the structure of their economies and their capacity to respond with stabilising policies. Given the interdependence of EU economies, the dynamics of the recovery in each Member State will also affect the strength of the recovery of other Member States.

In view of the severe COVID-19 impacts on consumer spendings, industrial output, investment, trade, capital flows and supply chains, the EU economy is not expected to have fully made up for this year's losses by the end of 2021. Investment will remain subdued and the labour market will not have completely recovered.

While short-time work schemes, wage subsidies and support for businesses should help to limit job losses, the overall unemployment rate in the euro area is forecasted to rise from 7.5% in 2019 to 9½% in 2020 before declining again to 8½% in 2021. In the EU, the unemployment rate is forecast to rise from 6.7% in 2019 to 9% in 2020 and then fall to around 8% in 2021.

More details, also on inflation and public spending levels, can be found here: https://ec.europa.eu/commission/presscorner/detail/en/ip_20_799

2) An in-house analysis, performed by **the EU Commission´s DG Trade team of economic experts** in mid-April, estimated a 9.7% decrease in **global trade for 2020**. For the EU27, the predicted COVID-19-related economic contraction results in a reduction of 9.2% om extra-EU27 exports of goods and services, and an 8.8% decrease in extra-EU27 imports in 2020.

In absolute terms, compared to the latest available statistics, this amounts to a reduction of exports by about 285 billion EUR and by 240 billion EUR in extra-EU imports (goods & services combined).

Exports of primary sectors (other than energy) and services trade turn out to be less strongly affected than manufacturing sectors, most of which see export contractions above 10%. In particular, transport equipment and electrical machinery turned out to be more strongly affected.
Given the unprecedented COVID-19 dynamics and many recent updates of economic forecasts' to be expected in the next couple of weeks, DG Trade announced a new trade projection to come out in May. Read more here in the attachment *"The impact of the COVID-19 pandemic on global and EU trade".*

3) Shortly before the publication of DG Trade´s report, the **World Trade Organisation (WTO)** had suggested a more pessimistic outcome in their communication. (Fecc´s COVID-19 newsflash reported on it.) Their assessment predicted goods´ trade to fall between 13-32% in 2020 against trade levels already depressed by US tariffs and slow economic growth. They could not come up with reliable figures for services but expect these (particularly in transport and tourism) to be even worse hit. However, more optimistically, they predicted that much of this decline could be recuperated in 2021, with trade growing by 21-24% under the prerequisite that governments cooperate quickly to remove trade barriers and stimulate growth.

4) Due to the COVID-19 pandemic the American Chemistry Council (ACC) estimates that:

- the US chemical output will fall by around 3.3% in 2020 if shutdowns are lifted before the end of June, but output could drop by 6.5% if shutdowns last through the fourth quarter
- World trade will decrease by 10.5%. The shale-gas price advantage that was powering US chemical exports has also evaporated due to lower oil prices worldwide.
- In terms of employment in the chemical industry, it is projected that it will not suffer as heavily as the retail, horeca, travel and other service-oriented industries. However, ACC still expects chemical job losses could total 28,000, or 5.1% of the workforce, in 2020. The cuts would reverse the industry's 3-year run of job expansion.

For more information, click HERE.

Free trade

Duty suspensions

The first round of negotiations for the products listed will take place between 20 April and 15 May. All objections should be formally sent to the national authorities. This is based on the suspensions adopted on the basis of Article 31 of the Treaty of the Functioning of the European Union (TFEU).

CEFIC has compiled a list of substances that will be under evaluation for these duty suspensions and is available on our members' area.

For more information about these duty suspensions, click HERE.
Should you have any questions about a particular substance in the list of suspensions, you may send the EURLEX helpdesk an email at EURLEX-HELPDESK@publications.europa.eu.

EU adopts retaliatory tariffs on US exports

As a response to US tariffs of 10-25% on some aluminium and steel products imposed last February, the EU has imposed additional customs duties on lighters, fittings for furniture, coachwork and playing cards imported from the United States in the second half of April.
Duties of 20 percent for lighters and 7 percent for furniture fittings will apply from 8 May, while an additional 4.4 percent tariff will be applied to playing cards imported from the U.S. from 8 February 2023.

US grants some temporary tariff relief due to Corona crisis
With effect of 20 April the USA are deferring the collection of some import duty payments for 90 days. The order is aimed at importers suffering directly from the present crisis.
However, this does neither apply to duties the US imposed on China and the EU, nor tariffs on steel and aluminium, washing machines and solar panels. Either does it apply to anti-dumping and countervailing duties.

EU and Mexico are clear on updating Trade Agreement
Last week EU Trade Commissioner Phil Hogan and and Mexican Minister of Economy Graciela Márquez Colín **finalized the negotiations on an update of the existing EU-Mexico Free Trade Agreement** which dates back to 2000.

The deal achieved is a major upgrade of the original accord, which covered basic goods and machinery only. Under the new EU-Mexico agreement, **practically all trade in goods between the EU and Mexico will be duty-free**. The agreement also now encompasses **issues concerning investment protection** and it **facilitates customs procedures**. Furthermore the updated agreement includes progressive rules on sustainable development, such as a commitment to effectively implement the Paris Climate Agreement.

The trade agreement is embedded into a broader Global Agreement, which also covers the protection of human rights, as well as chapters on political and development cooperation. It will also be the very first EU trade agreement to include provisions to fight corruption, with measures to act against bribery and money laundering.

The **next steps** will be the **legal revision of the agreement and the translation of the text into all EU languages**. Following the translations, the Commission proposal will **be transmitted for signature and conclusion to the Council and European Parliament**. Due to the current situation **the Commission could not indicate a time-frame for the ratification and application of the agreement**.

Partial Removal of Trade Preferences for Cambodia

The European Commission has notified stakeholders of trade roadmaps regarding the partial removal of trade preferences for Cambodia.
For trade in particular, the commission has notified stakeholders on a current trade agreement evaluation between the EU and with Cambodia. More information about this document are as follows:

- Cambodia benefits from tariff preferences provided under the special arrangement for the least-developed countries – Everything But Arms ('EBA') – referred to in Article 1(2)(c) of Regulation (EU) No 978/2012 (the 'GSP Regulation').

- As per the report findings, Cambodia's laws contain a number of provisions that contravene Cambodia's obligations under Article 19 of the ICCPR, notably through broadly and vaguely worded provisions which allow the Cambodian authorities to exercise a wide margin of discretion in implementing those laws and regulations and to bring charges for offences related to the exercise of the freedom of expression.

- Pursuant to Article 19(1)(a) of the GSP Regulation, tariff preferences under the preferential arrangements referred to in Article 1(2) of that Regulation may be withdrawn temporarily for reason of serious and systematic violation of principles laid down in the core human and labour rights UN/ILO conventions

For more information about this matter, click HERE.

Commission pushes roadmap on planned customs union action plan

In Mrs von der Leyen's political guidelines last year she pledged to bring the customs union "to the next level", with effective implementation of common customs rules at the EU external borders and creating a level playing field for EU business. In line with this, the Commission has published a roadmap on the planned customs union action plan.

This is the first step before a more formal consultation, ahead of publishing the communication and action plan in June.

Commission loosens export regime for protective equipment; proposes WTO agreement on medical equipment

Last month the European Commission adopted an export authorisation scheme for some personal protective equipment to stop the Member States from imposing national bans (see dedicated Fecc COVID-19 newsflash on this topic). However, this has caused real problems for Western Balkan countries depending on EU suppliers of protective equipment.

Last week, the European Commission announced that this regime would now only apply to protective masks, and that Western Balkan countries will be exempted entirely, along with Gibraltar and territories of EU countries outside the EU customs union. The new scheme also requires EU countries to authorise exports of emergency supplies for humanitarian aid.

The new regulations are valid for 30 days effective 26 April. Trade Commissioner Phil Hogan has proposed WTO negotiations on possible permanent removal of tariffs on medical equipment and a temporary suspension of tariffs right now. Such an agreement would be developed by the WTO and contain rules to ensure that no unwarranted trade barriers are installed in times of crisis, that all parties had equitable access to crucial health products, and to prevent unjustified price increases.

Legal framework

New WTO interim appeal arrangement since 30 April

On 30 April the EU and other WTO members have formally notified the "Multi-party interim appeal arbitration arrangement" (MPIA) to the World Trade Organization (WTO). This notification marks the start of the application of the MPIA to disputes arising between the participating WTO members.

The MPIA ensures that participant WTO members will continue to benefit from a functioning 2-step dispute settlement system in the WTO including the availability of an independent and impartial appeal stage.

These are currently Australia; Brazil; Canada; China; Chile; Colombia; Costa Rica; the European Union; Guatemala; Hong Kong, China; Iceland; Mexico; New Zealand; Norway; Pakistan; Singapore; Switzerland; Ukraine and Uruguay. Additional WTO members may join the MPIA at any time. Inclusiveness is an important feature of the MPIA that is designed to offer stability to WTO dispute settlement, despite the Appellate Body's paralysis. (see previous Fecc trade newsflashes).

Please read more here:
https://trade.ec.europa.eu/doclib/press/index.cfm?id=214

Protection of critical European assets & technology

End of March the European Commission (DG Trade) issued guidelines to ensure a strong EU-wide approach to foreign investment screening in a time of public health crisis and related economic vulnerability. The aim is to preserve EU companies and critical assets, notably in areas such as health, medical research, biotechnology and infrastructures that are essential for our security and public order, without undermining the EU's general openness to foreign investment.

Under existing EU rules, Member States are empowered to screen foreign direct investments (FDI) from non-EU countries on grounds of security or public order. Protection of public health is recognised as an overriding reason in the general interest. As a result, Member States can impose mitigating measures (such as supply commitments to meet national and EU vital needs) or prevent a foreign investor from acquiring or taking control over a company. National FDI screening mechanisms are currently in place in 14 Member States. With the EU foreign investment screening regulation in force since last year, the EU claims to be well equipped to coordinate control of foreign acquisitions done at the Member States' level.

In its guidelines the Commission calls on:

- the 14 Member States with an existing national FDI screening mechanism in place to make full use of all tools available to them under E and national law to prevent capital flows from non-EU countries that could undermine Europe´s security or public order
- all remaining EU Member States to set up a fully-fledged screening mechanism and – until then – consider all options, in compliance with EU law and international obligations – to address potential cases where the acquisition or control by a foreign investor of a particular business, infrastructure or technology would create a risk to security or public order in the EU.
- cooperation between Member States, as it comes to FDI screening cases where foreign investment could have an effect on the EU single market. Foreign acquisitions taking place now already fall under the EU FDI screening regulation and could be reviewed under the cooperation mechanism established by the regulation, which will be fully operational as from October 2020.

On capital movements the guidelines recall under which specific circumstances free movement of capital, notably from third countries, linked to acquisitions may be restricted.
The Commission is determined to follow the developments closely and is prepared to ensure coordination on any foreign investment with a larger European impact.
See also EU Commission press release:
https://trade.ec.europa.eu/doclib/press/index.cfm?id=2124

New temporary framework for antitrust and cooperation under COVID-19

The Commission has published a new Temporary Framework for antitrust and cooperation during the COVID-19 crisis. The framework covers cooperation in supplying essential goods and services to scale up production where there is a clear and objective public interest in doing so. It stresses the need for safeguards and the cooperation to be limited to what is necessary and proportionate. The framework has no expiry date, hence it will be in place until it is withdrawn. The Commission also issued a comfort letter for Medicines for Europe to allow closer cooperation in supply of medicines and underlined their willingness to engage constructively with other sectors and issue further comfort letters where needed.

European Commission launches assessment of GDPR

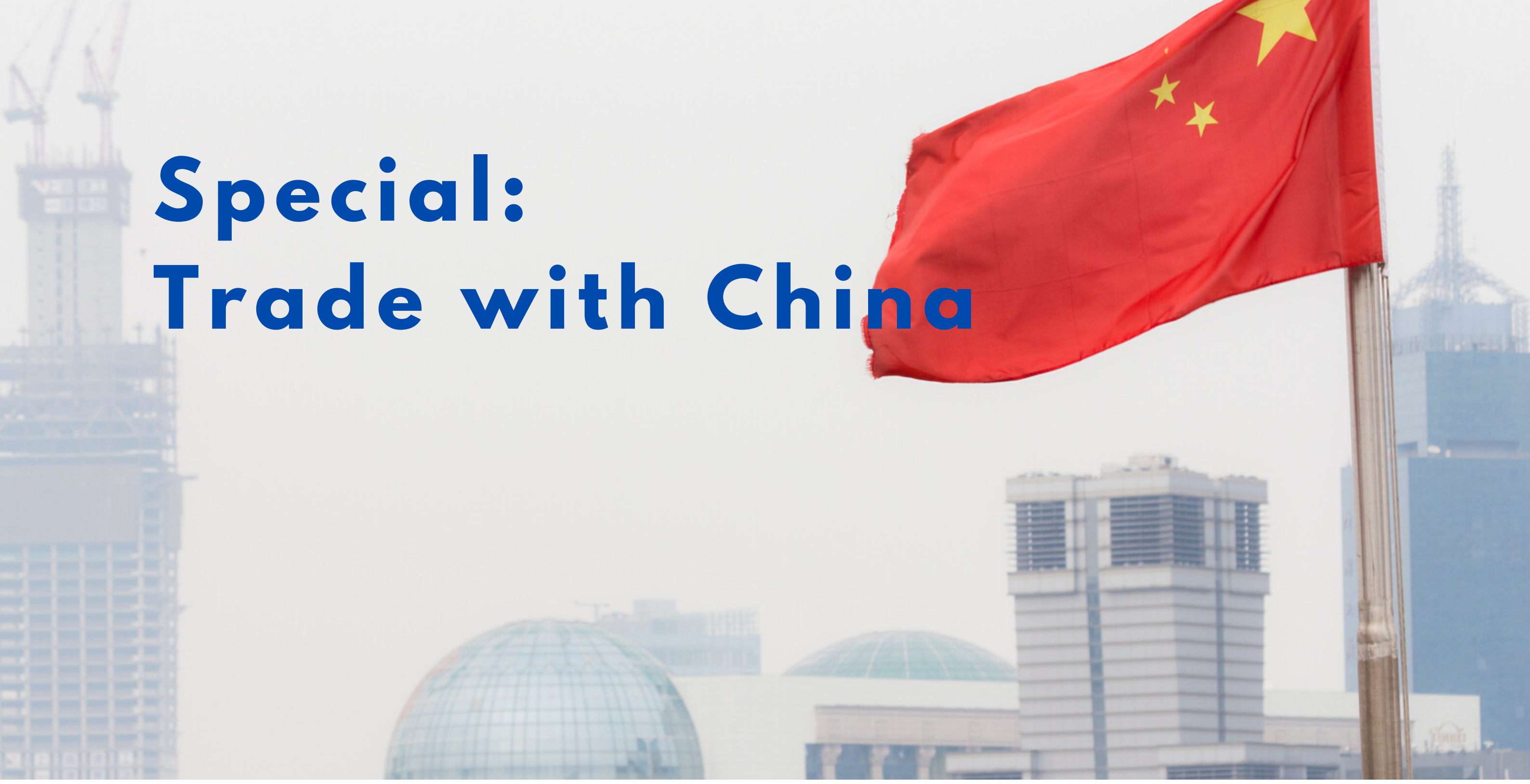
The Commission has published a roadmap consultation on the General Data Protection Regulation (GDPR) as an initial stage of a review of any economic, social, and environmental impacts of the GDPR, and whether further action is needed at EU level. The feedback gathered from a public consultation planned for later in the year will gather views from the Council, European Parliament, the Data Protection Authorities and the European Data Protection Board and be taken into consideration in the final report on the GDPR. The consultation on the roadmap closes on 29 April. The final GDPR review report was scheduled for 24 May but will now not be published before sometime in June. The report will look at transfer of personal data to third countries, particularly existing adequacy decisions, and at cooperation and consistency between national data protection authorities. Some Data Protection Authorities are pushing for the publication of the report as soon as possible, as they see measures being adopted nationally in the current COVID-19 crisis risk undermining existing privacy regulation.

Commission publishes roadmap for the evaluation of the Market Definition Notice

In early April the Commission has published its roadmap for the evaluation of the Market Definition Notice for mergers under EU competition law. This is the first step, to be followed by a full public consultation, expected in the summer. Commissioner Vestager's rejection of the merger between train-makers Siemens and Alstom last year, prompted immense pressure on the Commission to review its market definition rules to better allow for the creation of "European champions" to compete globally.

The Commission has also found problems in applying the existing rules to takeovers of digital companies, where their services have no monetary value. The roadmap identifies these two issues but presents no concrete policy options at this stage. The deadline for feedback on the roadmap is 15 May, and we will work with the Supply Chain Committee to provide comments.

Around the same time – also early April - the Commission launched a consultation to revise by next week the temporary framework for state aid implemented in March in response to the COVID-19 crisis. The updated guidance would allow member states to buy shares in hard-hit companies to provide liquidity. This has a major potential to distort competition, and can only be used in extreme cases. We have also been in touch with the Commission on members' concerns at the low limit of an €800,000 for state support per company allowed under the emergency measures (based on Article 107 (3) b) of the Treaty). The Commission has clarified that unlimited aid is possible under the normal Treaty provisions (Article 107 (2) b)) and we encourage members who are affected by the €800,000 limit to press their governments to consider this alternative in the schemes they are developing.



Special: Trade with China

EU trade with China – public consultation launched
The European Commission launched a [public consultation on the expectations of stakeholders from trade with China and on the cooperation with China in customs matters](). The Commission would also be interested in hearing where the barriers lie.

The **objective** of the consultation is to collect the views and opinions of key stakeholders as to **how the customs cooperation and mutual assistance agreement between the EU and China has been working in practice**, in particular the extent of its relevance in helping EU customs authorities accomplish their mission of facilitating legitimate trade combined with efficient controls to ensure safety and security and prevent illicit trade, as well as fighting fraud.

The consultation covers questions on:

- The current cooperation in custom matters with China and its future development
- The quality of cooperation in customs and trade matters with China
- Specific questions on the "Agreement between the EU and China on Cooperation and Mutual Administrative Assistance in customs matters"
- The EU's role in cooperation with China on customs matters

If you wish to participate in the consultation and submit your comments, please use the feedback mask on the Commission's website, which is open for feedback until **Tuesday 16 June 2020**.

Fecc interview with Maurice Fermont, Senior Adviser, Business Europe

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On 13 March 2020 Fecc organised a webinar on "The EU and China – Addressing the systemic challenge" co-hosted by Business Europe. Fecc took the opportunity to benefit from the expertise of Mr Maurice Fremont, expert on China, who works as senior adviser of the European Business employers association, *BusinessEurope.*
For more information, please visit [Fecc's members' area](#).

Maurice Fremont works as a senior adviser on international trade and investment at *BusinessEurope* and is one of the contributors for the report on 'The EU and China - Addressing the systemic challenge'. Based on the recent developments, BusinessEurope, in collaboration with 35 national business federations, published this report which includes the top six recommendations on how the EU can secure a level playing field between the EU and China. These recommendations, along with some points of the report, will be discussed in this interview.

What made you so interested in the Chinese economy and culture in general?

I was fortunate enough to study at Peking University for a master's degree in 2011 and 2012. This allowed me to become more familiar with China's history and culture and learn about its political economy. China's distinct culture and traditions and different way of looking at the world sparked my curiosity to better understand Chinese people. It also provided a good mirror to think about our European cultural heritage and put it into perspective. I remained interested in China ever since I first went there, and in my current role as senior adviser on trade and investment policy I am among other things responsible for China.

Aside from the challenges that were described in this report, what do you think are the opportunities we should also take into account, or highlight?

In theory there are plenty of opportunities that increased economic integration could bring, particularly in the area of increased trade and investment. Ever since the creation of the World Trade Organisation in 1995, we have seen a continuous expansion of globalization propelled by a common rulebook. While globalization is currently under pressure, this is more due to the fact that the rulebook has not been updated

since the WTO's creation than due to the fact that globalization itself does deliver opportunities or benefits. If we can reform the WTO, it will once again be able to provide a global level playing field for the 21st century and promote sustainable globalization. Europe and China should work hard to achieve meaningful reform.
The other type of opportunities have to do with the possible degree of China's economic liberalization. Europe is already a very open economy and Chinese firms have fair access to our market. Increased market access in China could achieve more sustainable growth and competition in China's economy, and would also benefit Chinese and European businesses.

China could achieve this through increasing the number of sectors in which foreign companies can be active, and working hard to conclude the ongoing negotiations on the Comprehensive Agreement on Investment.
Despite the COVID-19 crisis, China still looks like it will be one of the world's economic drivers in the years to come. A growing economy means that European companies are still able to grow their revenue. Exactly what opportunities this may offer for European companies will depend on their sector.

As this report has been published, what has been the feedback from the European Commission so far? What shall we expect in the near future in terms of further action?

European Commissioner Phil Hogan warmly received our strategy paper in January, and in his speech he mentioned that he will encourage all institutions and stakeholders to look at our recommendations closely. In the near future I believe we can expect a number of European policies designed to mitigate the impact of China's state capitalism on our market economy, with further efforts to address level playing field issues. Think about proposals like an International Procurement Instrument (IPI) and an instrument to address foreign subsidies in the European market.

Ultimately, the Comprehensive Agreement on Investment is the cornerstone of the Commission's positive agenda with China. If we are able to conclude the agreement to a high level of ambition and within a reasonable period of time, this would pave the way for more engagement.

We have also proposed a number of new ideas in our paper, such as the creation of an SOE-principle to properly level the playing field between state owned enterprises and private companies. We will continue to advocate for this as well as other proposals we have made in our paper.

As we have seen, Europe has been engaged in more and more trade deals on other countries (Vietnam, Singapore, Canada) outside China. Is this an opportunity for us to lessen our dependence with China diversify how we do trade? Is this also, as mentioned in your report, a way for the EU to ensure fair competition and cooperation in third markets?

This is a very good question. First, I would say that the EU's trade strategy does not aim to placate our relationship with China, but is an instrument of economic engagement with the entire world. A lack of WTO reform has spurred on the EU's bilateral trade strategy in recent years. The EU's trade agreements with third countries also serve to promote our high standards in exchange for greater market access. This definitely supports fair competition and cooperation in third markets.
Second, I think that companies ultimately determine their sourcing and global presence based on a number of factors. More so than the EU's trade strategy, the current COVID-19 pandemic reinforces the idea that cost efficiency is no longer the key determinant for global value chains. Security of supply will play a much bigger role, and this will necessarily imply greater diversification from a single source of supply such as China.

As the COVID19 pandemic is expanding all over Europe and across the world – which is the major threat for the European economy, and which industries do you see as the 'winners' and the 'losers' in this pandemic post-COVID19? Will we expect a stronger or a more strained relationship with China post-COVID19?

This is hard to say, we are still in the midst of a health and economic crisis of unprecedented scale in modern memory. One of the features that I think will emerge from this crisis is that people and companies the world over will prioritise greater security for a while to come – economic security, supply chain security, and secure healthcare. What does security mean in this context? Security here means having greater control and resilience to be able to resist future challenges. That means bringing 'things' closer to home.

On a personal level, this may mean that people prioritise activities such as cooking over visiting restaurants, and travelling closer to home instead of further afield. From a trade perspective, this could mean shortening supply chains – both in terms of concentrating production of different components in the same factory, as well as physically, with companies possibly relocating final assembly closer to their customers. This might have a strong downward pressure on China's historically export-led economy, which should be addressed with greater economic liberalization and market access for foreign companies.

The desire for increased personal and economic security will have different impacts on businesses. This means that in some sectors, trends will be reinforced (think of digitalization and Industry 4.0, where these trends would provide greater resilience and supply chain security), in others, they might be reversed (think of hospitality and tourism) for some time to come.

If given the chance to create a second report about another country as comprehensive as this one, which country would you choose and why?

I would probably choose India. India is a complex country and full of economic opportunity. Further engagement between the EU and India would be highly beneficial for both European and Indian businesses. Although negotiations for a free trade agreement between the two have stalled since 2013, a report from the business community highlighting opportunities and pushing for a way forward could be a good starting point to help revitalize the economic relationship.

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Maurice Fremont gained experience in trade issues while working at the European Commission's DG Trade, and has a good understanding of Asia after having spent one year in China. He is fluent in Dutch and English, and speaks good German, intermediate French and basic Mandarin. He holds a Bachelor degree in philosophy and politics from the University of Kent, and a dual MSc in international affairs with a focus on trade from the London School of Economics and Political Science and Peking University. Fecc had the opportunity to interview Maurice and discuss more about his expertise in the Chinese economy and the Report itself.