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Answer to the European Commission Consultation on the Trade Policy Review – the Association of Swedish Engineering Industries (Teknikföretagen)

Summary

The Association of Swedish Engineering Industries (Teknikföretagen) welcomes the European Commission's initiative to engage stakeholders in a review of EU trade policy and gathering input from industry in setting out the direction for a renewed trade policy for increased European competitiveness.

Teknikföretagen represents over 4,200 member companies that constitute one third of Sweden's exports, making Teknikföretagen the primary industry representative in Sweden. Our member companies comprise both major, renowned, global corporations, as well as many micro-, small- and medium sized enterprises. A common denominator for our member companies is that they develop technologically advanced products and services exported in fierce global competition.

The mission of Teknikföretagen as an organization is to strengthen the competitiveness of our member companies. Being highly integrated in global value networks, the competitiveness of our members is contingent upon access to foreign markets, for both supply and distribution but also in areas such as innovative research and development cooperation. An ambitious European trade policy, that facilitates market access, removing barriers to trade and behind the border obstacles, while ensuring a level playing field, is therefore a central priority for Teknikföretagen.

Europe needs an external trade policy that addresses the challenges facing our companies today, arisen from unfair trade practices by third countries, while remaining open for trade and investment as key drivers for European growth and prosperity. The primary means of achieving this should ideally be through multilateral agreements, which requires a well-functioning multilateral trading system. Strengthening and reinforcing the World Trade Organization (WTO) should therefore be a key priority in EU trade policy. In areas where this cannot be achieved, unfair trading practices resulting in a distortion of competition need to be addressed through plurilateral or bilateral agreements, or by EU instruments and mechanisms. While necessary, it is of utmost importance that such tools are not driven by protectionist motives, are not unnecessarily administratively burdensome for industry and are WTO-compatible in order not to attract retaliatory actions and undermine the multilateral trading system. Such mechanisms should preferably aim to incentivize multilateral, plurilateral or bilateral negotiations to achieve a level playing field and address market distortive practices while, until such agreements are reached, facilitate reciprocal trading relations with third countries and regions.

Question 1: How can trade policy help to improve the EU's resilience and build a model of open strategic autonomy?

Teknikföretagen stresses that there has yet to be an agreed upon definition and, more importantly, understanding of the concept of 'open strategic autonomy' presented by the European Commission (EC). The concept was previously introduced in the EC proposal for *A New Industrial Strategy for Europe* in March 2020 as 'strategic autonomy', and subsequently modified to include the word 'open'. Teknikföretagen strongly emphasizes that the industrial strategy proposal has yet to be discussed by the European Parliament (EP) and agreed upon by the member states (MS) – and is announced to be revised in 2021.

In order not to precede EU industrial policy, it is important to engage in a holistic discussion on the concept of strategic autonomy, as well as resilience. A key priority for Swedish industry is that the application of the concepts of strategic autonomy – open or otherwise – and resilience shall not disincentivize nor prevent access to or collaboration with non-EU countries and industries in third countries in global value networks. This applies both to market access and to value adding research and development cooperation.

This is essential, since industries based in Sweden have built and will continue to build competitiveness, innovative strength and industrial leadership through global competition and open markets, resource efficiency, cutting edge technology, high-skilled personnel, effectiveness and commercially business-driven decisions without political interference. Exported industrial goods are often contingent upon imported intermediate goods and raw materials, and sourcing from global value networks. Restricting sourcing from non-EU countries would therefore severely diminish European industries' competitiveness, both within the Union and on the global market.

The Covid-19 pandemic has exacerbated the rhetoric of strengthening the resilience throughout European value and supply chains, limiting the dependency of EU based industries on industries in non-EU countries and in extension contributing to the regional autonomy of the EU. Although undeniably affected by disruptions in the supply chain due to production in and sourcing from non-EU countries, Teknikföretagen wishes to draw attention to the fact that disruptions of supply chains in Europe resulting from measures to contain the spread of Covid-19 in other European member states had (for some sectors) a significantly larger negative impact on industries with production in Sweden. Companies with a diversity of geographical locations for sourcing outside the EU were better able to maintain supply by scaling up production in regions not experiencing shutdowns. Once these regions were affected, production was scaled up in other locations in order to secure an adequate supply of intermediary goods for production in Sweden. In the context of resilience, the role of European trade policy needs to be to enable for industry to diversify supply and sourcing by removing obstacles to trade. It must be up to each company to make their own risk assessment and organize their supply/value chains and networks accordingly. Critical societal resources could, in order to improve resilience and robustness, be safeguarded through different measures, e.g. through contracts and stockpiling.

This needs to be reflected in the conceptual understanding of strategic autonomy and resilience, both from and industrial- and trade policy perspective. In order to attract business to locate and invest in Europe, the EU and its member states should focus its efforts on ensuring a business-friendly and high-skilled

environment in the EU and its member states. This includes strict application of a competition and state aid framework that ensures a level playing field among companies of all sizes on the single market; horizontal investments in competitive cross-border research, development and innovation programs (e.g. Horizon and Digital Europe); an agile regulatory framework that can adopt new technological advancements on the market (according to the principles of the New Approach); and an ambitious free trade agenda that facilitates access to foreign markets. Limiting the access to foreign sourcing or collaboration through state intervention and forced reshoring will in the end drive investments outside of Europe with negative consequences for European growth and prosperity, and in extension the standard of living for European citizens.

Making the EU a worldwide hub for innovative technologies, services, and platforms should be a central priority to achieve technological leadership. As such, the EU should continue to pursue its strategic interests by investing, building and maintaining its scientific and technological expertise in critical digital capabilities, boosted through international cooperation on new innovative technologies. This enables a competitive European economy that can contribute to European industrial leadership on a global scale. This will also contribute to European industrial leadership in green technologies and for the EU to fulfill its climate targets and ambitions, such as the Paris Agreement and Agenda 2030. Exporting green technology and products to the global market will also advance the transition to climate neutrality on a global level.

European industrial leadership can only be secured if EU industries can continue to work with the most competitive and skilled industries within the EU as well as outside the EU. Limiting EU industries access to collaborative partnerships outside the EU will undermine existing industrial ecosystems with global networks and supply chains. Such state interventionist approach would lead to a vicious circle of state subsidized and, hence, artificially competitive companies dependent on capital injections and state support measures, with products that in the longer run cannot compete on a global market.

The EU cannot afford to draw the wrong conclusions from the Covid-19 pandemic. Self-reliance is neither attainable nor a desirable goal in the pursuit of strengthening the global competitiveness of European industry. Rather, it will undermine competitive industries within the Union and exhaust member states' finances. A business-friendly environment supporting horizontal technological leadership must be a key priority in order to advance the competitiveness of European industry.

Question 2: What initiatives should the EU take – alone or with other trading partners – to support businesses, including SMEs, to assess risks as well as solidifying and diversifying supply chains?

Global competitiveness starts at home, by strengthening the functioning of the single market. This includes safeguarding the free movement of goods, persons, services and capital, and promoting research and development in order to boost innovation and competitiveness of European companies. It is not the role of the EU, nor its member states, to assess the risk of individual companies' supply chains. It is however the role of EU trade policy to enable fair and equal access to as many foreign markets as possible in order for industry to – if needed – diversify and mitigate risk throughout its supply chains. The EU and its member states

should work towards a swift ratification of concluded free trade agreements, the finalization of ongoing free trade negotiations, and continuously evaluate new countries and regions to initiate negotiations with.

Also, improvements of the cross-border infrastructure in the EU for road, rail, aviation and maritime transport will improve the role of the EU as global trade partner and increase competitiveness for European industry and make supply chains more resilient.

For more details, see answer to Question 1 above.

In addition, Teknikföretagen concurs with the EC risk assessment, as stated in the consultation note under the section titled *Supporting socio-economic recovery and growth*:

*The Covid-19 crisis is expected to lead to a deep global recession – with high levels of unemployment, rising public debts, lower private investment (at least -30% decrease in global FDI flows) – which could lead to a **larger role of the state in the management of the economy.***

*As countries grapple with the aftermath of the crisis, there is a risk that their chosen policy mix will be more protectionist in nature, **to the detriment of their own economy** and consumers, and putting the global recovery at risk, and particularly exposing developing countries. There will be a particular challenge to **ensure that crisis response and recovery measures that are warranted in the short term do not become the “new normal” in terms of permanent distortive state interventions and interference with the functioning of the global economy.***

Teknikföretagen emphasizes that it is imperative that temporary measures to (1) contain the spread of the virus and to (2) facilitate the recovery of the European economy do not become permanent, which may undermine the functioning of the single market and EU global competitiveness in general.

The EC has a central role to play in ensuring that state aid and competition rules are enforced. Current exemptions to the state aid rules risk distorting competition on the single market, undermining Europe’s comparative advantage. The current extensive use of state aid may also lead to increased socio-economic differences among member states to the detriment of the stability of the European Union.

Increased state intervention also pertains to the EC proposal to channel investments into politically identified sectors (e.g. the 14 so-called “ecosystems”; regional strategic value chains and alliances) and key technologies. In order to limit market distortions, Teknikföretagen stresses the need for EC and member states to engage in a transparent dialogue with industry on how central funds will be invested into the European economy. A less strict application of EU state aid and competition rules risks distorting competition on the single market to the detriment of micro-, small- and medium size enterprises, which are vital for European industry’s natural ecosystems and value networks. Increased state intervention in the European economy with the explicit aim to strengthening European global competitiveness consequently risks undermining that very objective.

Further, export control measures, tax policies, and trade defense instruments should be applied with caution, and with respect to the

negative economic impact such measures can have on companies manufacturing and investing in Europe. Measures taken should not put companies in the EU at a competitive disadvantage compared to their competitors in third countries or create advantages for some industry sectors in the EU at the expense of other EU industry sectors. Teknikföretagen urges the EC to strive for alignment of national measures to avoid fragmentation within the single market, and to seek a multilateral understanding on these issues to create a fair and competitive global environment.

In parallel, the EU's vast network of existing and future free trade agreements can contribute significantly to EU companies' ability to solidify and diversify supply chains. They contribute to establish geopolitical partnerships, open opportunities for European businesses in third markets, secure the most diversified and high-quality portfolio of goods and services entering the EU and, at the same time, they ensure a level playing field. It is therefore necessary that simple and clear rules and new market opportunities are developed to help companies, including SMEs, assess risks and diversify supply chains.

Cooperation with trade partners must remain a top priority for the EU. However, the EU also must consider ways to mitigate and manage the risk caused by policies adopted by our trading partners in times of crises. Instinctively, governments may retract to increased economic nationalism and adopt protectionist measures that unnecessarily restrict trade, to the detriment of global trade and, thus, all sides. In such cases, the EU can use the tools provided under its Market Access Strategy and various dispute settlement resolution mechanisms, in order to limit undue general export restrictions that harm our supply of critical inputs and goods.

Finally, close dialogue with European industry is essential in order to shape a trade policy fit for European industrial leadership and competitiveness. The practical experience of the industry in managing European and international trade affairs is vital when analyzing, defining and adopting positions on EU trade policy. Bilateral and multilateral dialogue among the EU and its trade partners must seek to engage industrial representatives in a timely and efficient manner.

Question 3: How should the multilateral trade framework (WTO) be strengthened to ensure stability, predictability and a rules-based environment for fair and sustainable trade and investment?

The World Trade Organization (WTO) and its predecessor GATT have improved stability and predictability in international trade to the benefit of European industry. Teknikföretagen is a strong advocate for the importance of a well-functioning multilateral trading system and the key role of the WTO in international coordination and cooperation on trade issues. However, the multilateral trading system is currently under significant pressure, due to both political and systematic reasons. Strengthening and reinforcing the WTO and the functioning of the multilateral trading system must therefore remain a core priority for EU trade policy.

There are a number of issues pertaining to the functioning of the multilateral trading system that need to be addressed. Set criteria needs to be developed and put in place for special and differential treatment of self-declared developing countries in the WTO, to ensure they are limited in time and scope. Others are rules on industrial subsidies (including soft loans, export credits, debt-guarantees and acquisition support), forced transfer of technology, export restrictions that are incomplete and imprecise, and the area of trade distortions related to State Owned

Enterprises (SOEs) and subsidies. Further, the operability of the Dispute Settlement Body with its appeals process needs to be safeguarded.

The organization needs modernization, and trust in the system must be restored. Members should enable the new Director General to drive the modernization process forward, by strengthening the role to the Secretariat by allowing them to make compromise proposals in the negotiations. Ways to increase the participation of stakeholders, including businesses, in the WTO should also be further assessed.

To secure the future of the dispute settlement system, it must be made more efficient. In constructive dialogue with the US and other countries, the EU should identify solutions for how the system can be reformed. The interim solution initiated by the EU along with countries including Australia, Brazil, Canada, and China can only be a temporary emergency solution. Concrete discussions must be initiated where members discuss issues such as the number of judges, rule interpretations and time frames.

Another challenge of the WTO is its need for consensus. Achieving consensus in an organization in which its members have widely differing interests has shown itself to be extremely challenging. Even if multilateral solutions are desirable, this ambition must not stand in the way of other objectives. The option to go forward without other members in so-called plurilateral solutions for those who so wish, should be used if need be. A discussion about the WTO decision making rules should be initiated, with qualified majorities in certain areas as one option.

The WTO rulebook needs to be updated and new rules are desirable in a number of areas. Priority should be given to new rules on digital trade, trade in services, industrial subsidies and SOEs, and on trade in environmental goods and services.

The e-commerce agreement should include rules on duty-free access for electronic transactions, trade secrets, forced technology transfer, paperless trading procedures and electronic signatures and contracts. The agreement should also lead to improved market access for services and increased participation in the Information Technology Agreement (ITA) and its expansion. A particularly important issue for the business community is rules that guarantee that data can be moved across borders and that data location requirements are prohibited.

The ITA and its expansion is of key importance for European industry. The next steps at WTO level should be to expand the global participation in this agreement and to ensure that current participants are living up to their commitments. The EU should include commitments to join ITA and ITA expansion in all future FTAs. This is not only an opportunity to address non-tariff barriers to the ICT sector but should go hand-in-hand with progress towards ambitious new disciplines under the WTO eCommerce work track. A successful conclusion to that work track can bring benefit to all industries from a horizontal perspective, including manufacturers of technologies, by removing barriers to digital trade and customs duties on electronic transactions. In this regard, a permanent moratorium on customs duties on electronic transactions would be advantageous. It can also address the need for a framework facilitating cross-border data flows and prohibit undue restrictions on the latter.

In the area of subsidies, Teknikföretagen welcomes the joint efforts by the EU, the US and Japan to develop proposals to address this issue. What is important now

is to bring these proposals to the WTO and convince all members to engage in the negotiations. The aim should be to strengthen compliance with current rules, including through incentives for members to fulfil their reporting obligations in order to increase transparency and to sanction non-compliant countries. The next step should be to move the discussion beyond issues related to the notification of subsidies, looking at the concept of subsidies as such and discuss the expansion of the types of subsidies that should be prohibited and/or countervailable. The discussion should also include the creation of stricter sanctions for non-compliance. The EU might need to consider a situation where not all countries can agree and where a coalition of the willing moves forward on an agreement to address subsidies which can contain incentives for non-members to join. We cannot allow the WTO principle of single undertaking to block progress.

Another priority when it comes to new rules is trade in services. A resumption of the plurilateral TiSA negotiations on improving rules and increasing market access for services would be desirable. Teknikföretagen would also welcome discussions on how trade in environmental goods, environmental services and the circular economy can be facilitated. A resumption of the Environmental Goods Agreement (EGA) negotiations would be welcomed.

Question 4: How can we use our broad network of existing FTAs or new FTAs to improve market access for EU exporters and investors, and promote international regulatory cooperation – particularly in relation to digital and green technologies and standards in order to maximize their potential?

The European standardization system (ESS) is central for the functioning of the single market and a smooth standards development process is key for European industry to maximize its impact on the technical content in international standards. To that end, ensuring a well-function standardization system in Europe is essential in strengthening the global competitiveness of European industry. Global actors require global solutions, and identical technical requirements and specifications in European and international standards facilitates global market access for and eliminates costly technical barriers to trade for European companies, regardless of policy area. Therefore, the EU should promote the use of global standards and preferably, where possible, refer to global standards in support of EU legislation.

Unfortunately, the process for developing harmonized European standards (hEN) and publishing references to hENs in the Official Journal of the European Union has become overly burdensome and politized due to increased management by the EC. As a result, it is increasingly difficult to ensure that hENs correspond to the latest technological advancement on the market or to know which version of a standard to apply with respective EU legislation. This undermines the functioning of the EU single market and the Vienna and Frankfurt Agreements between CEN/CENELEC and ISO/IEC, diminishing European industry's ability to affect the technical content of international standards and, thus, Europe's global competitiveness.

Therefore, Teknikföretagen calls on the EC to engage in constructive dialogue with the European standardization organizations and industry stakeholders to renew trust in the ESS. This dialogue needs to go beyond the interpretation of case law with the objective to ensure a European standardization system that is fit for purpose and an agile standards development process that allows for industry to

easy develop and revise standards that can reflect the most recent technological advancements on the market. This is vital in order to ensure a European regulatory framework that facilitates innovation and first to market ability for European industry. In extension, this will enable Europe to set international standards and affect the technical content thereof, which will strengthen European industry's global competitiveness.

Additionally, the technical barriers to trade chapters in EU FTAs can be further strengthened by engaging civil society actors in dialogue on strategic cooperation in the area of standardization, and commitments to adhering to international standards. Countries and regions (including the EU) should strive for greater synchronization between product requirements, e.g. in FTAs. Further, international standards should be used to a greater extent for product measurements and testing. Additional testing, such as third-party verification or local testing, when technical requirements are similar, should be avoided.

Focusing on the effective implementation of the EU's broad network of FTAs should become a priority in the context of the Trade Policy Review. The Commission has already stepped up its efforts in this direction, but the EU should also use its trade policy, and FTAs in particular, to enhance regulatory cooperation, through dialogue, transparency and a system of early notifications. Proactive cooperation among regulatory agencies in the EU and in partner countries will also help develop regulations that are compatible, pre-empting future trade barriers and facilitating access to markets for economic operator. This can also drive sustainable solutions, especially to promote digital and green transformations through regulatory approximation and mutual recognition.

Understanding how FTAs are implemented in practice is crucial. More attention should also be given to ensuring that information is communicated to stakeholders, notably economic operators. Even though the task of informing enterprises of the benefits brought by FTAs are today considered a prerogative of member states, the EC should find ways to be more active in this area.

Overall, it is important to make sure that FTAs reduce the cost of doing business, especially for SMEs. Rules of origin are a prominent example in this regard, as the process of proving origin increases administrative costs and can involve bureaucratic hurdles for the exporting and importing companies. Hence, if the potential duty savings are low and the administrative procedures for proving origin are overly complicated, companies may choose to pay the MFN duty instead of applying for the preferential one. The Commission should aim at simplifying the rules of origin in its FTAs.

Furthermore, the creation of the position of an EU Chief Trade Enforcement Officer (EU-CTEO) should provide the EU with dedicated structures to better implement trade agreements and, more generally, focus on the abolishment of trade and investment barriers that are detrimental to the EU's interests. This should take place in close coordination with EU member states and the civil society, including business.

Finally, we welcome the EU to continue following the strategy to adopt more FTAs to increase the benefits of trade in the EU and globally; FTAs and investment treaties should look not only at opening market to EU companies, but also to make sure they can compete in a fair manner on these markets.

Question 5: With which partners and regions should the EU prioritize its engagement? In particular, how can we strengthen our trade and investment relationships with the neighboring countries and Africa to our mutual benefit?

The US, China and the UK will remain the EU's main trading partners and, therefore, key priorities in EU trade policy. At the same time, the EU's approach should be recalibrated in order to better reflect the developments in the relationship especially with the US and China. As EU trading partners become more assertive in the conduct of trade policy, so must the EU in order to be able to defend its interests. The EU should assume more leadership in the creation of international rules and standards. EU FTAs are crucial in this regard, in addition to ensuring market access, reducing technical barriers to trade and securing a level playing field.

The EU and its member states need to work towards the swift ratification of concluded agreements such as the EU-Mercosur agreement, pursue the conclusion of ongoing FTA-negotiations, and continuously evaluate new countries and regions with which to initiate new FTA-negotiations. The aim should be to build towards harmonized rules and standards at the highest possible level, with regard to European norms and requirements.

Relations with the US

The US is one of the EU's most important trading partners. Despite challenges, Teknikföretagen still believes that further efforts must be given to identify and build a positive agenda that can strengthen the EU-US relations, building momentum in areas of common interest with a medium to long term perspective as an objective. The European Commission should explore how to move forward on the bilateral level, i.e. how to build on the recently concluded trade agreement. As the agreement is very limited in scope, Teknikföretagen would like to see a more comprehensive discussion on how to further remove tariffs as well as negotiations on conformity assessment. Teknikföretagen also calls for a negotiated solution to the Airbus/Boeing cases. The conflict is hampering businesses on both sides. Another important area for increased cooperation is the reform of the WTO, including committing to strengthening the dispute settlement system, new rules on e-commerce and subsidies, as well as other areas where the EU and the US share common objectives. Furthermore, there is a need for new transfer mechanisms between the US and the EU after the Schrems II ruling.

Relations with China

The EU must find ways to deal with China's state-driven hybrid economy, which is generating a number of problems in the bilateral relationship with the EU, but also with other trading partners and at the multilateral level. This includes trade and investment driven by heavy, unregulated subsidies, forced technology transfers, local content requirements, *de jure* and *de facto* barriers in public procurement, all of which need to be brought in line with international rules. The negotiations for the Comprehensive Agreement on Investment between the EU and China should be concluded; however, Teknikföretagen support the Commission's "substance over speed" approach, which aims at reaching a high-standard agreement that delivers substantial market access. The EU should also increase its efforts to engage China more constructively in the context of the WTO and work towards better safeguarding China's adherence to its rules.

A more comprehensive EU approach is therefore required to address concerns related to China, encompassing different policies and instruments, with the aim to (1) secure a level playing field between China and the EU, (2) mitigate the impact of China's government-induced distortions in the EU market, (3) reinforce the EU's own competitiveness and, (4) ensure fair competition and cooperation on third markets.

Relations with the UK

The EU and the UK should remain important trading partners after the withdrawal of the latter from the EU. The parties need to agree on a comprehensive and ambitious agreement as soon as possible. This would – to the extent possible given Brexits unavoidable consequences – give companies the stability, clarity and certainty they need while they are managing through the current crisis. Both sides should look at ways to avoid instability and ensure a smooth transition to the new EU-UK relationship. However, an agreement must include robust rules on fair and equal state aid and governance. Furthermore, it is of utmost importance that the EU-UK agreement is in accordance with the EU's overall trade strategy. For instance, it should include ambitious digital trade provisions, such as prohibiting data localization requirements across all sectors. An agreement on digital trade between the EU and the UK could serve as a standard for future negotiations globally.

Therefore, we hope that the intensification of negotiations will lead to substantial progress in all areas. Moreover, given the profound changes that will occur in the way to do business between the EU and the UK, it is essential to continue to help and support companies preparing to face this challenge.

Regardless of the outcome of the negotiations, building towards a strong long-term relationship with the UK once the present negotiations are over will remain a key priority for Teknikföretagen. This will require a process of gradual partial reintegration with the UK in a practical manner.

Relations with Mercosur

Teknikföretagen is a strong proponent for the swift ratification of the EU-Mercosur FTA. This is a key agreement from an economic and geostrategic point of view. Not only will it ensure a first mover advantage for European companies that face extremely high duties of up to 35 percent for many products, but it will also bring Mercosur countries closer to EU standards and rules. The Mercosur area is important for several members of Teknikföretagen also for manufacturing. The agreement will also provide the ideal platform to engage in dialogue and upholding commitments on important issues such as climate change and deforestation. The FTA also provides important leverage in the discussions on these sensitive issues.

Relations with Africa

Africa is one of the world's fastest growing regions. Together, the EU and Africa have a well-established strategic partnership aiming at promoting economic growth and sustainable development in Africa. Nevertheless, the full potential of the partnership is yet to be realized. More efforts are required to improve business and investment climate in Africa. Trade policy can contribute in achieving this, for instance through the conclusion and deepening of Economic Partnership Agreements (EPAs), which should be used as building blocks towards a continental free trade agreement with Africa. The role of the private sector should

also be emphasized in the EU's future trade and development policies. EU should assist in the implementation of the AfCFTA through capacity building and strengthening quality infrastructure in order to remove technical barriers to trade for European industry.

Relations with Southeast Asia

An important FTA between the EU and Vietnam entered into force on 1 August 2020, which will gradually remove duties on 99 percent of goods, delivering significant economic benefits on both sides. It is now important to focus on the ratification of the Investment Protection Agreement, which requires the consent of national parliaments in the EU. Gaining access to markets is key. However, it is also crucial to ensure that this access is effectively protected. Teknikföretagen urges the Commission and EU member states to complete the ratification process and allow this part of the Agreement to also enter into force.

Teknikföretagen similarly calls on the ratification of the EU-Singapore Investment Protection Agreement, which was separated from the EU-Singapore Free Trade Agreement that entered into force in 2019.

Besides the two agreements that the EU has already signed with members of the Association of Southeast Asian Nations (ASEAN), namely Singapore and Vietnam, negotiations are also open with other ASEAN members, including Indonesia, Malaysia, the Philippines and Thailand. While recognizing the political challenges that currently exist in pursuing these negotiations, such agreements would provide access to important markets and support further diversification of supply chains, as well as constituting building blocks in the pursuit of a region-to-region agreement between the EU and ASEAN which should be considered as a long term strategic objective for the EU.

Relations with Turkey

Turkey is an important trading partner for the EU, with interconnected value chains and investments. However, bilateral relations are at a critical point, as political developments, most recently in the Eastern Mediterranean Sea, have resulted in halting the process of the modernization of the EU-Turkey Customs Union Agreement, which is increasingly dysfunctional. However, Turkey's economic integration with the EU remains a prerequisite for a working Customs Union. In this regard, a constructive dialogue between the EU and Turkey should remain open to promote progress in areas of common interest.

Relations with Russia, the Eurasian Economic Union and the Eastern Partnership countries

EU-Russia relations have been facing significant challenges in recent years, not least due to Russia's aggressive foreign policy especially towards Ukraine and the illegal annexation of Crimea, which resulted in heavy economic sanctions. Other important factors that have contributed to the aggravation of the relationship are measures adopted by Russia, such as import substitution that have a negative impact on the general business environment. Despite these challenges, Russia remains an important trading partner for the EU. In this regard, the approach of being open to dialogue, while insisting on Russia's compliance with international law, should be continued from the part of the EU. Channels of communication, including bilateral dialogues at the institutional level, should also remain open in

order to be able to address existing and potential future grievances in the area of trade.

At regional level, the Eurasian Economic Union (EAEU), comprised of Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia, has assumed competence over important areas of trade policy. In this regard, a dialogue between the EU and the EAEU's relevant authorities can also contribute in the abolishment of barriers to trade and the improvement of the business climate for EU companies.

Teknikföretagen agrees with the EU's approach to tailor its strategy towards the Eastern Partnership (EaP) countries to the individual needs and level of engagement of each of the six partners. In this regard, it is critical to focus on the effective implementation of the Association Agreements, which include Deep and Comprehensive Free Trade Areas (DCFTAs), signed with Ukraine, Georgia and Moldova. Economic integration through capacity building and strengthening the quality infrastructure in the EaP-countries and Western Balkans remain important strategic objectives in order to remove technical barriers to trade for European industry in the region(s).

Relations with the Asian-Pacific countries

Australia and New Zealand are like-minded trading partners with the EU, and allies in defending a rules-based multilateral trading system. The conclusion of FTAs between the EU and Australian and New Zealand are strategic not only because of their economic benefits but also because of their geopolitical significance.

Relations with South Korea

South Korea and the EU agreed on an FTA in 2009 and South Korea is an important and growing market for several European exporting companies. The FTA is a good foundation for increased trade between the EU and South Korea. However, improvements can be made in South Korea when it comes to the implementation of the agreement among South Korean authorities.

Relations with India

Negotiations for an FTA between the EU and India remain stalled over the past years and the political momentum to re-launch negotiations is lacking. However, India remains an important but challenging market for EU businesses. It is essential that, in the absence of a bilateral trade deal, the Commission should use all other instruments at its disposal, such as the Market Access Strategy, to address trade and investment measures that affect EU companies.

Question 6: How can trade policy support the European renewed industrial policy?

Trade and industrial policy are mutually reinforcing in strengthening European industrial competitiveness. Trade policy should remain the main policy area to be utilized in order to address market distortions and ensure a level playing field on international level, in addition to facilitating market access for European industry. The primary objective should be to pursue this through multilateral agreements, and when this cannot be achieved initiate plurilateral or bilateral negotiations. In areas of market distortions and non-reciprocal trade relations, trade policy and industrial policy intersects when the EU needs to protect its strategic and economic interests from unfair competition from third countries, by strengthening the internal

dimension through EU instruments and mechanisms. While necessary, it is of utmost importance that such tools are not driven by protectionist motives, are not unnecessarily administratively burdensome for industry and are WTO-compatible in order not to attract retaliatory actions and undermine the multilateral trading system. Where possible, such mechanisms should aim to incentivize multilateral, plurilateral or bilateral negotiations to achieve a level playing field and address market distortive practices while, until such agreements are reached, facilitate reciprocal trading relations with third countries and regions.

In essence, EU trade policy shall facilitate market access and ensure a level playing field on international level; while EU industrial policy shall ensure the best possible framework conditions for European industry to prosper and fair competition among actors active on the single market (see answers to questions 1 and 2 above).

Despite a lack of common definitions, political consensus, agreement and, thus, legitimacy, new concepts pertaining to both trade and industrial policy are already being applied in practice. This is neither desirable from a procedural nor policy perspective.

One example is in the field of research, development and innovation. In the pursuit of achieving “strategic autonomy”, we can already see how the European Commission is moving towards limiting the possibility for European industry to collaborate with third countries in strategic areas within the Horizon Europe programme. Access to global research, development and innovative collaboration is vital for the functioning of European industry’s global value networks. This is evident example where the application of a preconceived concept can result in a negative impact for European industrial competitiveness.

Other areas where the application of the preconceived concept of strategic autonomy can have a negative impact is the increased focus on political intervention in European value chains and ecosystems. The European Commission’s current ambition to identify and channel (public) investments into strategic European value chains, ecosystems and/or alliances, as well as key technologies, risks leading to market distortions to the detriment of micro-, small and medium sized enterprise which are vital for European industry’s current, natural ecosystems. Paradoxically, this may distort competition on the single market, undermine European industrial leadership and competitiveness and drive industry to locate production, research and innovation outside the EU.

The concept of technological sovereignty has also been discussed at EU-level as a part of both EU trade and industrial policy. This is interpreted by some that the EU and its member states should be self-sufficient in terms of critical technologies, which in practice would instead diminish technological development in Europe. Teknikföretagen asserts that international exchange through trade is necessary in order to be at the cutting edge of technological development. Therefore, the discussion should rather focus on increased technological leadership and capacity through research and development, innovation, and free trade.

Access to raw materials and energy is crucial to Europe’s development. It is therefore important that EU trade policy seeks to secure Europe’s access to raw materials and energy. This can be achieved, for example, by counteracting export restrictions and subsidies in third countries.

Question 7: What more can be done to help SMEs benefit from the opportunities of international trade and investment? Where do they have specific needs or particular challenges that could be addressed by trade and investment policy measures and support?

SMEs are the backbone of the EU's economy and their potential for growth through trade is significant. To this end, Teknikföretagen welcomes the European Commission's approach to negotiate dedicated SME chapters in its FTAs, which aim to improve transparency and increase access to information. Furthermore, progress in the area of regulatory approximation is of extra importance to SMEs as they have greater issues than multinational corporation when dealing with complex foreign regulatory environments.

At the same time, it is important to make sure that trade rules in general, whether part of an FTA or a specific piece of legislation, reflect the needs of SMEs, and are clear and easy to implement. An example can be drawn from the area of rules of origin – if they are too complex to comprehend and implement, then SMEs have difficulties to benefit from increased market access opportunities.

More can be done to inform SMEs about opportunities of internationalization and encourage them to do business outside the EU. The Enterprise Europe Network (EEN) offers information and advice that could be further expanded to reach more companies from different sectors. In addition, the Access2Markets platform (A2M) just inaugurated by the Commission should be a key instrument in helping SMEs find and understand trade-related information and increase their awareness of opportunities.

Finally, access to finance that will help SMEs in their internationalization remains a key concern and the Commission should make sure that awareness is also raised on the availability of relevant funds and projects.

Question 8: How can trade policy facilitate the transition to a greener, fairer and more responsible economy at home and abroad? How can trade policy further promote the UN Sustainable Development Goals (SDGs)? How should implementation and enforcement support these objectives?

Different instruments can be leveraged to facilitate the transition to a greener economy at all the levels of trade policy – multilateral, bilateral and unilateral.

At the multilateral level, our priorities include the revival of negotiations for an Environmental Goods Agreement in the context of the WTO as well as looking for ways to deal with industrial subsidies and overcapacities, which should be disciplined accordingly. At the same time, reaching an agreement on emissions trading and carbon markets (finalizing the rulebook on Article 6 of the Paris Agreement) is crucial. The EU should also work with other countries to harmonize standards and regulatory frameworks to facilitate the global commercialization of green products and services.

At the bilateral level and through its network of FTAs, the EU could in the future explore options to include targeted provisions on trade in environmental goods and services, including tariff reductions and addressing non-tariff barriers. Moreover, the EU should explore the possibility to extend the Trade and Sustainable Development Chapters in the EU Economic Partnership Agreements (EPAs) with

Africa, the Caribbean and the Pacific, as well as include provisions on investments that would also cover incentives for green investments. In general, it is important that rules are complemented by appropriate capacity building and technical assistance, with the active involvement of the private sector.

At the unilateral level, the EU can assess how environmental and climate standards can be taken into account in public procurement processes, making sure that these standards are respected by all bidders, both domestic and third-country ones. Furthermore, the EU's Generalized System of Preferences (GSP) is currently undergoing a modernization process and one of the areas where we would welcome more activity is specifically in environment and climate change. One example is the inclusion of the Paris Agreement in the list of international conventions that the GSP+ beneficiaries should comply with.

The discussion on possible EU unilateral initiatives linking trade and climate policies would not be complete without addressing carbon border adjustment measures (CBAM). Teknikföretagen agrees that given the EU's high climate ambitions there is a risk of carbon leakage and that there is a need to incentivize other countries to increase their climate ambitions in line with those of the EU. However, CBAM is a highly complex issue and the final design of the mechanism needs to be considered. It is important that a global level playing field is created for all imported products and not only energy intensive raw materials. There is a risk that imported manufactured goods produced outside the EU get a competitive advantage compared to goods manufactured in the EU where the raw materials such as steel are more expensive as a result of CBAM. This creates a risk that carbon leakage will be pushed to the next stage of the value chain and that the competitiveness, i.e. jobs and production, for products not covered by CBAM will be hampered. Therefore all impacts, including downstream industries, must be considered when looking into this, with a specific focus on sectors with a high export rate.

CBAM must also be WTO-compliant, manageable and possible to monitor by authorities and thereby effective in reducing carbon leakage without undermining the competitiveness of EU industry. The EU should therefore engage in a dialogue with our key trading partners on including emission trading schemes in FTAs in order to make them more effective and to mitigate the risk of retaliation. If not carefully crafted, CBAM has the risk to be beneficial to some EU industry sectors at the expense of other industry sectors.

Beyond the activities dedicated to facilitating the transition to a greener economy, we recognize that the EU leads by example in the area of sustainability and trade more broadly. Trade and Sustainable Development Chapters are included in all its Free Trade Agreements. These chapters are very comprehensive, covering issues related to the respect of human rights, the environment and climate change, as well as labor rights and Corporate Social Responsibility. It is our view that these chapters should strike a good balance between economic, environmental and social objectives. They can play a very positive role in promoting sustainable trade by improving relations between governments and the civil society or by encouraging business projects that contribute to the Sustainable Development Goals. At the same time, the TSD Chapters cannot and should not replace flanking policies necessary to ensure a fair distribution of the benefits of trade.

The implementation of these chapters is closely monitored by dedicated government-to-government bodies – the TSD Committee and the Trade

Committee, but also by the civil society, through the work of Domestic Advisory Groups and Civil Society Fora. The implementation of FTAs can be effective in incrementally improving sustainability in partner countries. This cooperative approach that enables and encourages is preferable to approaches that count on economic sanctions. We support strengthening the enforcement of the existing scope and content of TSD Chapters, with efforts concentrated at making the procedure more effective, for instance by including specific timelines for each of the actions foreseen under the agreement.

Question 9: How can trade policy help to foster more responsible business conduct? What role should trade policy play in promoting transparent, responsible and sustainable supply chains?

European companies are leaders in the field of responsible business conduct, committed to promoting sustainable and responsible supply chains. Responsible business conduct forms part of the EU's comprehensive Trade and Sustainable Development Chapters in the context of its FTAs. Relevant provisions promote collaboration between the EU and its trading partners, but they also encourage exchange of good practices and a dialogue with business. This has given positive results and how these provisions and their follow-up could be developed further should be explored. This is imperative not merely to achieve the EU's objectives, but also to ensure a level playing field between EU companies and non-EU companies that do not invest as much in ensuring sustainable and responsible supply chains.

Responsible business conduct is closely related to the process of due diligence in the supply chains and the role of the private sector. The debate is elevating on the possibility to adopt an EU legislative framework in this area. Teknikföretagen supports a common EU approach to due diligence in supply chains. However, a more prescriptive and possibly punitive approach carries with it a number of risks. Not least by dampening investment and trade with countries with a challenging environment, and thus inadvertently in fact be detrimental to a more sustainable development in these countries.

Question 10: How can digital trade rules benefit EU businesses, including SMEs? How could the digital transition, within the EU but also in developing country trade partners, be supported by trade policy, in particular when it comes to key digital technologies and major developments (e.g. block chain, artificial intelligence, big data flows)?

The digitalization of production and trade needs to be given priority and better reflected in EU trade policy. Restrictions and newly arisen challenges during the Covid-19 pandemic have highlighted the critical role of the digital economy, for governments, businesses and individuals. This development has emphasized the need for international rules on digital trade and gives even more leverage to the e-commerce negotiations at the WTO. Concluding the talks should be a priority as it would benefit companies, including SMEs, when engaging in international trade. The agreement should include rules on free data flows, duty-free electronic transactions, trade secrets, forced technology transfer, paperless trading procedures and electronic signatures and contracts. The agreement should also lead to improved market access for services and increased participation to the ITA and its expansion. The need to agree on rules should not only be evident to

developed economies, but also to developing economies. Raising awareness and putting in place capacity building programmes will be crucial in this respect.

At a bilateral level, the European Commission should continue to include digital trade provisions in EU FTAs. A digital trade chapter should continue to include rules on custom duties on electronic transmissions, electronic signatures and contracts, source code, and should also enable the development of emerging technologies and include a regulatory cooperation component. EU trade agreement must also include strong provisions on data flows and prohibition of data localization (see more in answer to question 11 below).

The digitalization of customs procedures should also be prioritized by the EU and our partner countries.

Question 11: What are the biggest barriers and opportunities for European businesses engaging in digital trade in third countries or for consumers when engaging in e-commerce? How important are the international transfers of data for EU business activity?

International data transfers are key for business activity. They enable the development of innovative, high-quality goods and services. They are also used by companies of all sizes and are relevant for all sectors in the economy. Without data flows, international trade is severely restricted, as well as access to the necessary tools and inputs to engage successfully in the digitalization of the economy.

At the same time, there is a rise in digital barriers to trade that affect the flow of data between the EU and the rest of the world. These can take the form of data localization requirements, mandatory source code deposits or the fulfilment of national requirements. Such measures have been adopted by a number of trading partners.

Teknikföretagen asserts that the review of EU trade policy should look at how the EU can use all the instruments at its disposal to tackle barriers that affect the flow of data. We support including strong provisions on the free flow of data and the prohibition of barriers such as data localization requirements, in all trade agreements. More attention needs to be given to this subject in the EU's FTAs. A comprehensive and ambitious digital trade chapter – with clear and enforceable provisions on cross-border data flows – in the EU's FTAs, as well as in the e-commerce negotiations would be an effective instrument, at the same time as those rules should not undermine the EU's data protection directive.

Reinforcing the efforts under the Market Access Strategy can be another way to pursue the abolishment of digital barriers.

Question 12: In addition to existing instruments, such as trade defense, how should the EU address coercive, distortive and unfair trading practices by third countries? Should existing instruments be further improved or additional instruments be considered?

It is crucial that the EU is able to defend its industry against unfair competition, and EU trade policy plays a central role in achieving a level playing field with third countries. As previously expressed, many of the issues intended to be addressed by current or proposed instruments and mechanisms would be preferable to find

solutions to through multilateral, plurilateral or bilateral agreements. However, in the absence of such agreements, it is fully justifiable for the EU to safeguard its industry from unfair trading practices by third countries. Examples may include overuse of state subsidies or SOEs, forced technology transfer and intellectual property violations, or acquisitions of EU companies, key technology and infrastructure by actors backed by foreign governments with non-commercial incentives.

A vivid debate is taking place on the behavior of foreign business operators in the EU. This is related to the issue of access to the EU market of foreign entities that are heavily subsidized and the distortions that are subsequently caused on the single market, to the detriment of the competitiveness of EU companies. Initiatives pursued under the white paper on foreign subsidies, FDI Screening Regulation and the International Procurement Instrument must respect the fundamental principle for an open EU trade policy. Further, they must not, when their combined effect is evaluated, lead to unnecessary administrative burdens for industry and undue trade restrictions that may attract retaliatory actions from third countries. A careful balance is needed in this regard. This also means that particular attention should be given to the procedural aspects of the different tools, which should avoid putting additional strain on European businesses.

Further, with the current stalemate concerning the WTO Appellate Body, Teknikföretagen supports an ambitious enforcement package that will allow the EU to respond more effectively to aggressive and unjustified sanctions or measures imposed by third countries. Teknikföretagen welcomes the changes proposed by the Commission allowing the EU to take action and seek compensation from trading partners following a favorable WTO panel ruling even if the decision is not yet final, or the appeal process falls into the void because of the current deadlock in the WTO's Appellate Body. The changes proposed by the European Parliament seek to further expand the scope of the regulation by including services and intellectual property rights, proposing action even without a WTO decision in specific cases or by strengthening the enforcement of sustainable development commitments. In view of the many questions on how this expansion could be implemented in practice, we ask for a more thorough assessment on what kind of measures could be included and what impact they would have.

Question 13: What other important topics not covered by the questions above should the Trade Policy Review address?

As continuously exemplified above, there is a clear interconnectedness of this Trade Policy Review and currently ongoing EU industrial policy discussions. It is imperative that EU institutions and member states engage in a constructive dialogue with European industry organizations to find a common understanding and practical application of key concepts pertaining to both EU trade and industrial policy.

As expressed in the answers above, the primary objectives of EU trade policy are to facilitate market access by removing barriers to trade and to secure a level playing field for European companies. In light of this, there are several key trade policy areas that are not explicitly addressed in the questions above, including tariffs, technical barriers to trade, rules of origin, trade facilitation, etcetera.