

Trade Policy Innovation

REPORT & RECOMMENDATIONS

(virtual) Meeting

17 November 2022

At the request of the chairman, Mr John Bruton, the executive director of the HLGs, Dr. Stefan Schepers, welcomed the members¹ to the 11th meeting. This time their brainstorming would focus on Political Risk Management in global value chains, as well as on the role of the EU and its trade policy in the changing multilateral order.

For ten years now, the working method has aimed for an ‘open innovation’ approach between governments, business and academia, to inject innovative policy ideas into the EU system. It results from an initiative in the Competitiveness Council.²

RECOMMENDATIONS

Following this brainstorming, the HLG on Trade Policy Innovation proposes the following:

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- The HLG recommends strengthening the capacities of EU trade officials and EEAS diplomats to help them deal with the heightened political risk in key supply chains and to develop a consistent EU trade and industrial policy in a challenging scenario. All over the world there are qualified think tanks and research centres to provide analysis and inputs. In the future, officials and diplomats should receive a dedicated budget to work with them to obtain scientific, analytical inputs for impact assessments and scenario development.³
- The HLG recommends recalibrating the EU’s key assumptions about its role in the geopolitical scenario and its internal processes to ensure a consistent trade policy. For this purpose, more attention should be paid to foresight analysis, as developed on different continents and in key trade partners, to anticipate future challenges and provide accurate risk analysis. Both US and Chinese policy preparation is known to be more open to outside inputs from research centres and think tanks, advisory groups or business. Today, knowledge is dispersed and must be systematically collected.

¹ Members participate in their personal capacity. All recommendations for action and all ideas for further consideration have not always been agreed on by all members, but advice is based on a very wide consensus. The final version is written under responsibility of the chairman and the executive director

² Competitiveness Council, 5-6 December 2011, Presidency Note.

³ For example the network of the ETTG (European Think Tanks Group)

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- The HLG recommends refreshing mindsets and incentive systems in the EU bureaucracy.
- The HLG draws attention to the importance of training trade diplomats to develop diplomatic skills and mindset. Their role is to promote the common good in the EU through fair and resilient trade relations, but this must be done with respect and understanding for non-Western countries. There is plentiful evidence that, in particular in Africa, condescendence has not disappeared and Eurocentric views and attitudes hinder improving relations.⁴
- The HLG draws attention to the importance of cooperation between the public and private sectors because in the globalised economy, there are corporations (MNCs) which have the best knowledge of markets and supply chains and of potential alternative scenarios. Their opinions should be collected upfront in a constructive dialogue, whereby both sides have to learn to work together without prejudice.
- The HLG recommends that member states rethink the organisation and culture of the institutional apparatus of the EU's external policy to bolster its role
- The HLG recommends that the Commission reinforce the role of DG Trade and ensures equal status and coordination among its DGs. Inter-service consultations must take place upfront in order to achieve shared visions, with the inputs suggested above.
- Overall, the HLG recommends improving cooperation, coordination and synergies between the tasks of the DGs, EU delegations and agencies, and the EEAS, to develop a coherent EU trade policy. This policy should be comprehensive and fully take into account the collateral effects on countries and regions, business and workers in Europe and the trade partners, in particular where developing countries are concerned. It has become abundantly clear that the EU has only soft power in the world and this requires inclusive frameworks for trade strategies.

⁴ See also report of the HLG on Africa-Europe Partnership, A roadmap towards an effective, fair and equitable partnership, 2021, p 3, 10, 14, 19.

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Summary of discussions

Members heard a presentation by Prof. Dr. Heinrich Matthee on the Political Impact Management of Supply Chains and Trade Policy-Making in Europe.

I. Risk Analysis

Any risk management policy must depart from an accurate risk analysis. All too often, incorrect assumptions lead to wrong decisions by policy-makers.

We are experiencing crises operating simultaneously at different layers and gaining momentum. New issues have been added to the structural challenges the world has been facing, with uncertain solutions ahead. Human control over technology is shrinking and our capacity to solve problems is therefore limited. Crises are not new, but societies are changing rapidly. During WWI and WWII, Europe also experienced threats to the supply-chain, but the rapidity of changing paradigms is unprecedented.

The Covid-19 crisis was a quiet warning before the actual great challenges, especially in the post-Ukraine world framework. Internationally, instability has an impact on two main pillars: energy and food. To a large extent, states seem unable to deal with these challenges.

In international trade competition, industrial standards and trade laws will be weaponised. An accurate risk analysis of supply chains must take this into account. This increased weaponisation of trade does not imply that globalisation is over. However we have entered a new phase of globalisation. Asymmetries and substitution options are becoming more important than ever.

In Europe, risk analysis is affected by a naïve and Eurocentric vision of the world ('Alice in Wonderland', according to an Israeli diplomat). Sometimes the EU is excessively influenced by a normative and idealised vision of world politics it but does not see how to apply them and insufficiently takes the realities of the other party into account. This does not mean that the analysis conducted by the EU so far is incorrect. DG Trade, for instance, reviewed the EU's Trade Strategy in 2021, pointing out the correct challenges and solutions.

These were:

1. The necessity of openness in trade relations and of maintaining the multilateral order.
2. The importance of sustainability in trade.
3. The need for more assertiveness in the EU's decision-making, i.e. the need to defend the EU's strategic interests and autonomy internationally.

As is so often the case, implementation is the key challenge.

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The US Inflation Reduction Act, on the one hand, and the EU Carbon Border Adjustment Mechanism (CBAM), on the other hand, can be seen as two sides of the same coin. Legislation in third countries is not unfounded per se. The EU requires a more realistic and broader perspective. Although a price on carbon is welcome, a more holistic perspective is necessary to safeguard the EU's industry.

In Europe, the capacities to carry out this risk analysis are lacking. Politicians in the EU seem to be overwhelmed by events and this pressure is to a great extent passed on to businesses. A deliberate process like that conducted by many major businesses and militaries is overdue for policy-makers and public bureaucracies. Businesses have a long-term approach. But sometimes public officials do not. Artificial Intelligence and bio-technology are good examples of the private sector being ahead of the public sector.

In the supply chain for raw materials, political authorities may need to provide financial risk-takers with insurance against politically-induced credit-risk defaults. In 5 years' time, the geopolitical scenario may have changed substantially. The centre of gravity is moving towards the East and Europe seems to be lagging behind. The question is how to use trade policy to make sure Europe maintains a position that serves the interests of its citizens and businesses.

Foresight and scenario planning are vital in this risk analysis. To anticipate issues in supply-chain management, more critical discussion and exchange is needed to build bridges between the inordinate isolated monologues taking place in Brussels. This High Level Group builds these bridges.

II. Risk Management

Thus accurate risk analysis is a prerequisite for conducting accurate risk management. Private – public cooperation does not mean that risk management policies are simply outsourced from governments to think tanks, consultancies and business schools. Political risk management by politicians is needed as an expression of the democratic will.

An extension and improvement of capacities is needed to develop accurate political risk management of supply chains. Teams should be diversified and adopt new management policies. Bureaucracies and public managers must change and adapt to the challenges. Officials are experiencing a heavy workload, mainly due to the complexity of regulatory processes. These need to be simplified for the benefit of regulators and business operators.

In the relevant EU institutions, a designated crisis management team with an accountable head, some response funds, trained in the crisis management procedures and one or more venues that can serve as an operations room would reflect the best practice in multinationals and the military. Trained crisis management teams are not only better prepared to manage political and security risks that affect trade, but often they may also generate insights into and measures to optimize the opportunities present in many crises.

The role of training is essential to create the correct mindset and skills for successful trade diplomats. Professional diplomats achieve results when they are trained before being sent abroad. It is important to draw attention to training, for instance in business schools. Existing trade diplomats will need to be reskilled.

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Cooperation between the private and public sectors is essential. Major multinationals have inhouse or outsourced services for political impact management, risk insurance and business diplomacy. The selective use of and links to the ecosystem of commercial providers of such services may become useful to EU institutions.

III. Coherence and coordination

To ensure Europe's protagonist role in the changing multilateral order, the organisational culture of its external policy institutional apparatus needs to change to favour more political and flexible thinking. Capacity for efficient actions requires an urgent upgrade of the efficacy of the European External Action Service (EEAS).

A helicopter view of the EU's external policies needs to be strengthened too. Sharing information and building capacity between member states, the Commission and the EEAS should become more frequent and comprehensive than ever. Communication is equally important as the legitimacy of institutions and their actions to a large extent depends on the perception of being helpful and positive to the social order.

Equal cooperation between DGs is needed. DG Trade seems to be suffering from being subordinate to other DGs, especially the ones dealing with the Green Deal. This subordination can be overcome by high-level political support.

Interagency cooperation is a problem in the EU bureaucratic structure. Policy coherence between the EEAS, DG Trade, DG DevCo (and other Commission DGs), and between the various structures and funding mechanisms is becoming a key pillar for more successful global operations, as previously recommended by this HLG.

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