

Resilience and self-reliance

– is Europe turning inwards,
and what does it mean for future markets?

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FUTURE WATCH

Despite the trade lobbyists' opposing views to some EU-level initiatives, multiple defensive signals coming from the EU institutions are pointing towards Europe turning inwards, and even becoming increasingly protectionist. Lobbyists are pointing out how a strong and open European Union economy would not need to protect itself but simultaneously the bloc is facing unequal global competition and struggles with building global and scalable success cases, especially in the technological and digital areas.

While businesses have long emphasised being apolitical and separating business from politics, during the past few years these two are facing the gap narrowing. Two major drivers behind the defensive actions taken by the European institutions, and the member states alike, are the polarisation between the United States and China, and COVID-19. Europe's answer has been to seek strategic autonomy – including industrial, technological and digital sovereignty. While lacking the military and foreign policy capabilities as great power attributes, trade, and economic mechanisms have increasingly been used as tools to protect European interests in the midst of the great power competition and to boost resiliency amid potential future shocks.

If we take all that is in the pipeline, some initiatives being further than the others, the trade defense instruments form quite a palette. The international procurement instrument, carbon border adjustment mechanism, chief trade enforcement officer, the anti-coercion instrument, and mandatory supply chain due diligence have been among the most apparent ones. In addition to these various defensive mechanisms, multiple initiatives boosting the European sovereignty – for instance the Important Projects of Common European Interest (IPCEI) and Action Plan on Critical Raw Materials - show that the European Union is taking actions to build not only resilience but also self-reliance.

European Commission **anti-coercion instrument** or in other words trade mechanism to deter and counteract coercive action by non-EU countries¹, was introduced in February 2021. The initiative aims to establish a mechanism that allows the EU to address practices that aim at pressuring the EU or its member countries into taking or withdrawing particular policy measures. This mechanism would give the EU the power to retaliate with countermeasures in cases such as when the EU companies argued that the US sanctions stopped them from dealing with Iran. Another target is China's recent anti-sanctions law, which allows China's government to punish companies that comply with sanctions imposed by foreign governments. The European Commission regulation proposal should be ready for the Parliament and Council by the end of 2021.

¹ https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12803-Trade-mechanism-to-deter-&-counteract-coercive-action-by-non-EU-countries_en

The Carbon Border Adjustment Mechanism (CBAM)², in fact, a replacement of the free EU Emissions Trading System (ETS) allowances, is in many ways the most contentious proposal. CBAM aims to create a level playing field for EU producers subject to EU carbon pricing. Multiple countries, including Russia, China, India, Brazil, and South Africa have accused the EU of introducing protectionist measures under the umbrella of its climate policy. The proposal applies to imports of electricity, cement, fertilizers, aluminum, and iron and steel products, and will be implemented in 2026.

The European Union procurement market has been open to a significant degree to non-EU competitors. Meanwhile, the EU has advocated an equal level playing field with third countries, but these requests have been met with reluctance. To balance the level playing field, the **EU international procurement instrument (IPI)**³ has been introduced and is described as a trade offensive tool that will provide the EU negotiating leverage to open up third countries' procurement markets to EU businesses. Alternatively, the IPI would allow the EU to limit or ban access to its public procurement markets by those operators in countries that apply discriminatory measures to businesses originating in the EU. The European Parliament will be processing the initiative this autumn.

A fourth tool shaping the behaviour of the European businesses, and the non-European alike desiring at operating in the common European market, is the European Union move towards **mandatory supply chain due diligence**.⁴ The European Commission is now drafting a formal legislative proposal for the Directive to be presented back to the Parliament after summer. "EU Directive on Mandatory Human Rights, Environmental and Good Governance Due Diligence" is expected to come to force in late 2022 or early 2023. Possible sanctions under the new directive are anticipated to include large administrative fines, even exclusion from public procurement, state aid, and public support schemes. In addition, import bans can be sanctioned.

The above are a few impactful examples from the pipeline that aim at strengthening the resilience of the European single market. The COVID-19 pandemic also awakened the EU nations on how dependent the bloc has become on outside supply. The latest development towards reducing the dependencies was the EU commission president Ursula von der Leyen's proposal for the European Chips Act in her State of the Union 2021 speech.⁵ One specific objective of the proposed act would be to diversify Europe's supply to reduce dependence on single countries.

² https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3661

³ <https://www.consilium.europa.eu/en/press/press-releases/2021/06/02/trade-council-agrees-its-negotiating-mandate-on-the-international-procurement-instrument/>

⁴ [https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/659299/EPRS_BRI\(2020\)659299_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/659299/EPRS_BRI(2020)659299_EN.pdf)

⁵ https://ec.europa.eu/info/strategy/strategic-planning/state-union-addresses/state-union-2021_en

Better preparedness for future crises will be tackled by pushing deepening of the single market and – by protecting it. Companies falling within the scopes of these various defensive instruments will need to start preparing to ensure that they are ready when they need to comply, and on the other hand understand the changing dynamics of the future markets.

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