

EU Trade and Regulation: Economic and Political Dynamics

Política Comercial e Regulação na UE: Dinâmicas Económicas e Políticas

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ABSTRACT

The EU's new generation of deep and comprehensive free trade agreements not only promote EU trade but also have a bearing on the shape of the European model and in consequence on the sustainability of the integration project. They reach much further than conventional free trade agreements. Their benefits hinge on the abolition of non-tariff and regulatory barriers and enter into areas that are member state competences. Much depends on the agreements in question and similarity of preferences between trading partners. It is up to the EU, ultimately for the sake of the sustainability of its political integration project, to explicitly contemplate not only trade impacts but impacts on the Union's economic model instead of letting rather than being pushed further down the road by unfolding trade dynamics. Keywords: Comprehensive free trade agreements; EU regulation and preferences; subsidiarity.

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RESUMO

A nova geração de acordos globais de comércio bilateral não promove apenas o comércio externo da UE mas tem igualmente um impacto no seu modelo de desenvolvimento e, em consequência, na sustentabilidade do projeto de integração europeia. A nova geração de acordos vai para além dos convencionais acordos de comércio livre. Os seus benefícios dependem da abolição de barreiras não tarifárias e barreiras regulatórias, o que entra na esfera de competências dos Estados Membros. Muito depende dos acordos em questão e da similitude de preferências entre os parceiros. Em última análise, cabe à UE tomar em consideração não apenas os impactos comerciais desses acordos mas também o impacto no seu modelo económico, evitando assim ser condicionada pelas dinâmicas económica e política deles resultante.

Palavras-chave: Acordos globais de comércio bilateral; regulação e preferências na UE; subsidiariedade

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1. INTRODUCTION

This article discusses European Union (EU) trade and regulation in the context of today's world trading system. Its purpose is to spell out the challenges facing the Union as a by-product of its trade dynamics, which have been pushing it towards deepening globalization further through an ever-increasing number of deep and comprehensive 'new generation' trade agreements with a growing geographical reach. While EU trade policy pays tribute to European values, it is not clear to what extent the European model – central to the EU's identity – is thereby being upheld, not least in light of the complexity of issues involved that would need to be contemplated in trade talks. The experience with the EU-Canada Comprehensive Economic and Trade Agreement (CETA), the EU's showcase new generation free trade agreement, has underscored both the complexity of issue areas and also the difficulties associated with ratification.

Adopting a trade focus tends to overlook that the EU's new generation deep and comprehensive free trade agreements not only promote EU trade but also have a bearing on the shape of the European model and, we argue, in consequence on the sustainability of the political integration project.¹ Comprehensive and deep free trade agreements are unlike conventional free trade agreements in that they reach much further. Whereas the latter do away with tariff-barriers to trade and are an exclusive competence of the Union, the benefits of comprehensive and deep free trade agreements hinge on the abolition of non-tariff, regulatory barriers and enter into areas that are member state competences.² If qualifying as a mixed agreement, the ratification of a trade agreement requires not only consent at the EU level but in addition of all member states (and some regions).³

The CETA treaty exemplifies the far-reaching rules that govern issues as diverse and broad as access to goods and services markets, investments and public procurement; intellectual property rights; sanitary and phyto-sanitary measures; sustainable development, regulatory co-operation; mutual recognition; trade facilitation; co-operation on primary materials; and the resolution of disputes and of technical barriers to trade. Fears voiced by member states or civil society that deep and comprehensive free trade agreements might not correspond to the preferences or values of society cannot be dismissed out of hand.⁴ For instance, this could be the case if there was a race to the bottom of standards through regulatory competition and/or regulation being hollowed out by regulatory cooperation and

¹ For a discussion of the meaning of the European model, see Bongardt and Torres (2009). In an environmental context sustainability denotes the capacity of a system to reproduce itself over time. It is here used also in a wider context with regard to the resilience of the EU political system (see Beggs et al. 2015).

² The Court of Justice of the European Union (CJEU) clarified the distribution of competences between member states and the EU in its verdict on the Singapore agreement. A comprehensive trade agreement that qualifies as a mixed agreement (like CETA) hinges not only on ratification at the EU level but also at the EU member state, and in some cases regional, level.

³ For a discussion see Bongardt and Torres (2017). Applied provisionally since the second half of 2017, CETA is still awaiting ratification by all member states. The EU-Japan agreement, the EU's largest trade agreement so far, was signed in July 2018 and entered into force on 1 February 2019. It still lacks an investment component.

⁴ See de Ville and Siles-Brügge (2017) on the case of the EU-US Transatlantic Trade and Investment Partnership (TTIP).

being beyond democratic reach, or when investor state arbitration came to limit the policy space for future more stringent consumer and environmental protection.

This article puts forward that much depends on the agreements in question and similarity of preferences between trading partners. It is up to the EU, ultimately for the sake of the sustainability of its political integration project, to explicitly contemplate not only trade impacts but impacts on the Union's economic order instead of letting itself being pushed further down the road by unfolding trade dynamics. Doing so may imply more 'dialogue' among various levels of policymaking, according to the subsidiarity principle, more 'transparency' rather than negotiations behind closed doors, and more legitimate 'regulation', rather than investor-state dispute settlements. It would also imply to internalize societal concerns, such as longer-term environmental concerns that have for long and consistently been among European citizens' priorities.

The remainder of this article is organized as follows. The ensuing section takes stock of the essential features of today's trading system and the challenges facing the EU in a weakened multilateral trade order. Section 3 takes a closer look at the EU's new generation deep free trade agreements and why they imply a qualitative change in EU trade. Section 4 discusses the interaction between external trade and EU regulation and the impact on the European model. Section 5 argues that the fundamental challenge for the EU to address is a rules and value-based international trade order on a sustainable footing. The concluding section places EU trade and the European model in the context the European integration project.

2. TODAY'S RULES-BASED MULTILATERAL TRADE ORDER: WEAKENED AND CONTESTED

These are testing times for the rules-based international trading order, which Europeans (among many others) got accustomed to and used to count on as a source of growing prosperity for much of the post WWII period, and for today's globalisation-fuelled international trade. Old certainties, where multilateralism seemed a given and the progression of globalisation unstopable, with world trade feeding on its dynamics, are at best being severely shaken.

First and foremost, the world trading system faces contestation of an unprecedented level. Far from being any longer the domain of no-global movements, which have voiced their concerns with globalisation for quite some time, the world's traditional anchor of free trade and fundamental pillar of the multilateral trade order, the United States (US), changed its trade policy course and joined in. The different actors' motivations for contestation might admittedly differ significantly, featuring social and environmental effects on the one side and bilateral trade disequilibria on the other. Yet, what cuts across is a notion of unfairness that goes together with certain side effects of trade perceived as negative. In consequence, the progression of globalisation can no longer be taken for granted and globalisation, and with it world trade, might even come to experience some downscaling or unwinding. The EU, which has been a staunch supporter of multilateralism in international trade, finds itself in a context in which trade disputes risk spiralling out of control into trade wars and the very multilateral rules-based trade order is cast in doubt.

Global trade and growth have undoubtedly greatly benefited from the multilateral framework drawn up under the auspices of the General Agreement on Tariffs and Trade (GATT)

and its successor, the World Trade Organisation (WTO). It however started to encounter sizable problems that await resolution, as the increasingly difficult conclusion of multilateral trade rounds, which culminated in the demise of the Doha round in 2005, and growing frustration with some trade partners' practices viewed as unfair (most notably China's⁵) indicate. In response the world has witnessed a proliferation of bilateral and regional trade deals through which countries aim to further their trade interests more directly.

In more recent times, multilateralism and the idea of international trade as a win-win situation received a further, severe blow when the current US administration shifted to an 'America first' stance with a bilateral, zero-sum perspective on and approach to extracting benefits from trade.⁶ In the course of trying to address its concerns and push for its interests with selected trading partners and by recourse to its clout, the US declared the EU, a long-standing close ally not only in international trade forums, a foe and singled out countries like Germany, Japan and China, among others. It suspended the negotiated EU-US Transatlantic Trade and Investment partnership (TTIP), did not sign the Trans Pacific Partnership agreement (TPP – subsequently signed by the remaining TPP11 partners under the designation of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, CPTPP), in whose coming into existence it had taken a leading role, and took to renegotiating an existing plurilateral trade agreement with one partner at a time (the case of the trilateral North American free trade agreement (NAFTA), starting with a bilateral agreement with Mexico), which gave rise to the United States-Mexico-Canada Agreement (USMCA), the trade deal replacing NAFTA. In addition, the US has threatened trade partners with and embarked on imposing import trade tariffs. Those unilateral measures have met with retaliation, among others by the EU (which imposed countermeasures in the form of import duties on a range of US products in response to US tariffs on EU steel and aluminium, and China), and raised the possibility of tit-for-tat trade wars (also with the EU, but most acute in the case of China). As for the EU, recent developments (above all, Brexit and the US's stance) have reinforced its external liberalization agenda and it has come to present itself as a champion of free trade in an era of global populism (de Ville and Siles-Brügge, 2019).

Alleging, among others, discontentment with a WTO overstepping its competences, US actions (blocking the nomination of judges to arbitration panels) jeopardize the WTO's functioning, most notably its dispute settlement mechanism, which is central to the multilateral rules-based trade order. The WTO has warned that this, together with the US entering into trade conflicts with the rest of the world, risks damaging the WTO as a guarantor of the international system and imperils world trade.⁷ While the task of reforming an international organization of 164 members, which have different interests but take decisions by unanimity, is a steep and cumbersome one that is only possible by building the necessary cross-country consensus, it is in the EU's interest to ensure a workable trade order. In our view, the EU's approach to global trade should not stop there.

⁵ While the WTO would have been well placed to obtain concessions from China at the time it was to join, China has since become a major global trading force.

⁶ See also Pelkmans (2018) on the implications for EU trade policy.

⁷ Declarations by Roberto Azevedo, Director-General of the WTO: "Warum wir die Welthandelsorganisation WTO brauchen", *Handelsblatt*, 9 August 2018.

At this junction for world trade, the role of the Union, which is a major player in the world trade arena given its market size and openness to trade, becomes pivotal, but a mere defence of the current system will not do. Rather, the EU faces a two-fold challenge, which not only consists of seeking to uphold a rules-based international order, but also, less obviously but we would argue crucially so, of shaping the future world trade order. The latter requires that the EU project its values - enshrined in the European model that aims at making compatible growth and social and environmental protection - onto the global stage through its trade policy. The challenge is especially acute with respect to the *de facto* still largely ignored link between trade and the environment.

3. NEW GENERATION FREE TRADE AGREEMENTS: A QUALITATIVE CHANGE IN EU TRADE

With multilateralism increasingly in crisis, the EU has resorted, at first reluctantly, to striking bilateral trade deals. The Union developed trade dynamics that have led it towards deepening globalization. In light of the already rather low tariff barriers among WTO members the EU came to embark on a new generation of international agreements. It means that in most cases, and in the absence of any one-size-fits-all trade agreement, the Union negotiates deep and comprehensive free trade agreements with third countries.⁸ Recent examples of those deep free trade agreements include the EU-Canada Comprehensive and Economic Trade Agreement (CETA), the EU-Japan Free Trade Agreement, the EU-Singapore, the EU-South Korea, the EU-Vietnam and the EU-Mercosul deep free trade agreements, and in the foreseeable future potentially also the United Kingdom, once it becomes a third party to the EU.⁹ Yet, abandoning multilateralism tends to distort global trade and harm third countries, and there are disadvantages for the EU, too, not least because pursuing (new generation) free trade agreements such as the TTIP or CETA rather than trying to revive the multilateral Doha round locks the Union into a less dynamic geographical area and also has the effect of excluding other countries and regions, most notably China (Winters, 2014). The welfare benefits of deep FTAs are not clear-cut and may even be uncertain. None the less, with tariffs already low in international trade, it seemed a logical step for the EU to embark on an ever-increasing number and geographical spread of deep free trade agreements that seek to also abolish non-tariff barriers to trade.¹⁰

Deep and comprehensive free trade agreements establish bilateral rules to govern the trade relation. Those do not only influence global norms and standards but also come to feed back into and interact with the EU's economic order in a way that traditional trade agreements have not. New generation free trade agreements thereby trigger a qualitative change in EU trade: they could reinforce the European model or, in the case where they

⁸ There are currently 44 trade agreements in force. Updates of the state of play of EU free trade agreements are available at: <http://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/>.

⁹ A discussion of EU international trade and Brexit can be found Bongardt and Torres (2018a). The impact of Brexit on EU trade policy is discussed in de Ville and Gheyle (2019).

¹⁰ A review of studies on the economic effects of TTIP can be found in Felbermayer (2016). A tariffs-only agreement would have only small effects on trade flows with very low welfare gains. For a comprehensive TTIP, the increase in bilateral trade flows would be sizeable, but studies differ substantially with respect to welfare effects.

weaken it, risk eroding the trust of European citizens and economic agents in the Union (Bongardt and Torres, 2009). The matter is economically and politically sensitive at a time when the European model, as a result of the limited progress to date with respect to the EU's economic and institutional modernization agenda and on the belated implementation of the social pillar, is still not consolidated.

Deep trade agreements will promote market-making but may well come to constrain market correction. Rather predictably, this creates friction within the EU, not least because in many policy areas now included in those agreements it is EU member states that have retained competences for market correction. To further complicate matters, new generation trade agreements imply higher co-ordination needs and raise issues of preferences and sovereignty when invading the competences of EU member states. They are likely to affect the European model since they address non-tariff barriers to trade and other issues such as investment protection, which interfere with political preferences regarding the role of the state in the economy. Regulation is intrinsically political, too, as it is based on values and beliefs. As de Ville and Gheyle (2019) point out, the EU had been insufficiently aware of the different nature of its first deep free trade agreement, TTIP, with regard to its scope (and also partner) as compared to other trade negotiations.¹¹ One result was the politicization of TTIP (de Ville and Siles-Brügge 2016 and 2017) and, in its wake, of CETA (Hübner et al. 2017). TTIP and CETA in particular brought to the fore popular concern with the effects of globalization on European society and the environment in the context of EU trade policy.¹² Public contestation of the EU's new generation of comprehensive trade agreements sits uneasily with EU trade dynamics.

A trade focus may easily lead the EU to overlook the complex and potentially broad consequences for society of (deep) economic and trade agreements, as the Belgian region of Wallonia reminded the EU in the case of the CETA agreement. It was due to contestation by civil society and especially the refusal by the region of Wallonia to sign the original agreement, which resulted in some amendments before CETA could be signed at the EU-Canada summit in late October 2016. Wallonia obtained a number of assurances, *inter alia*, on investor–state dispute settlement (which was initially not even to be replaced by the investment court system); regulatory co-operation (requiring common agreement by member states); safeguards with respect to genetically modified organisms; and a guarantee of the precautionary principle. The European Commission (2015) subsequently modified the principles that guide its trade talks, emphasizing that EU trade policy is to become more effective with respect to delivering economic results, more transparent and also to not only to protect EU interests but to protect and further European values in external trade.

¹¹ De Ville and Gheyle (2019) argue that even not having gone ahead, TTIP triggered major unintended consequences for the EU, such as demands from third countries to upgrade their trade relationship and unprecedented politicization, which affected CETA and brought about reform of EU trade governance and amendments to EU trade policy positions. In their view, EU trade policy has since adapted to the new politics of trade, thereby making unintended consequences less likely.

¹² According to de Ville and Siles-Brügge (2016), TTIP contained a neoliberal agenda bound to bring into the trade domain and de-politicize many political areas. The contestation of TTIP is regarded as an opportunity to bring the issues into the open and re-politicize EU trade policy.

With US commitment to the international trading order increasingly in doubt, the EU has a unique opportunity not only to be the anchor of the international rules-based system but to condition it in line with its objectives and values. That would mean to push, notably, for labour and environmental standards in trade agreements, something that the European Commission has not yet fully embraced. However, treating trade issues without due regard to the EU's wider objectives risks becoming a credibility issue for the EU. In the EU-Japan trade agreement, the EU made a first step in this direction by making observance of the Paris climate agreement a prerequisite, albeit belatedly and without much detail.¹³

Generally speaking, bilateral new generation free trade agreements in principle offer the EU an easier and speedier way to advance European goals and project its values onto the global stage in comparison with multilateral forums. The EU could aim to be a global rule maker.¹⁴ Yet, there is little evidence that it has even aimed at doing so. Young (2015) finds that the EU has not used regulatory coordination to try to export its rules and that it has generally settled for granting equivalence. Unsurprisingly, critiques persist and centre on fears that those trade agreements could undermine environmental and labour standards and give multinational firms the power to challenge national laws and limit the EU's and member states' regulatory space.

Even more preoccupying from an EU point of view, the backlash against the effects of globalization became directed against the Union, which was perceived as prioritizing economic (commercial) interests over making sure that its economic goals were compatible with societal (social and environmental) concerns. The incompleteness of the European model has fuelled fears of the potential impact of comprehensive agreements on policy domains beside narrow trade in goods, many of which have remained in the EU member state sphere. They regard the fleshing out of a European model in line with European citizens' present or evolving preferences. The politization motivated the European Commission (2015) to update its trade policy.

4. INTERACTION BETWEEN EXTERNAL TRADE AND EU REGULATION AND IMPACT ON THE EUROPEAN MODEL

The EU's new generation of deep trade agreements magnifies the issue of regulation, which is already complex in internal EU trade, in an international trade context (Bongardt and Torres, 2018b). In addition, external trade and regulation interact and impact on the European model, a fact that any discussion on what should be the EU's approach to global trade needs to take into account.

The issue of market making versus market correcting – or negative versus positive integration, in the terminology of Tinbergen (1954) – gives a foretaste of the issues (of a much larger scale) at stake in new generation free trade agreements. The CETA case illustrated that rules on regulation in deep and comprehensive trade agreements, such as through

¹³ With a view to obtain the CETA trade agreement, the European Commission had facilitated trade in highly polluting Canadian tar sands.

¹⁴ The issue of the EU as a rule-maker or rule-maker under TTIP is analysed by Hamilton and Pelkmans (2015).

regulatory co-operation, mutual recognition or investment court arbitration, may come to limit the European and national policy space.

As Pelkmans (2013) lays out, most EU-level rules currently refer to risk regulation, which pursues safety, health, environmental and consumer protection objectives. This risk regulation concerns mostly goods and services markets – for example financial market regulation and supervision, and network industry aspects – and only sporadically labour and capital markets. On a more horizontal level, it includes environmental regulation and consumer protection and rights. The precautionary principle, enshrined in the treaties, is an important EU principle in this context.

What made regulation-based integration possible in the EU, economically and politically speaking, was sufficient similarity of preferences. Heterogeneity of preferences is accommodated by the single market's mutual recognition principle, which implies competition between regulatory systems, and requires its societal acceptability. The rejection of the original (Bolkestein) services directive, based on the home country principle, illustrates well the political difficulties with co-existing different national regulation even within the EU.

Mutual recognition is a basic principle for single market functioning in European varieties of capitalism. It exists only in the single market framework, providing a fall-back solution to accommodate different preferences that do not allow for establishing common, European standards. Crucially, it presupposes a degree of trust that rules will be similar in their effect as well as supervision and enforcement capacity. Note that as a principle it has at times proven problematic even in a European context, once it allows for regulatory arbitrage (competition between regulatory systems) in an EU that has become ever more heterogeneous after successive enlargements.¹⁵

The economic case for EU deep and comprehensive trade agreements rests on realizing largely untapped benefits from abolishing non-tariff barriers to trade. Still, trade and welfare effects are complex and may even be ambiguous.¹⁶ Those free trade agreements tend to have broader implications for society and influence its model of development (Rodrik, 2016). Those are conditioned by the scope of the agreements in question (e.g., covering areas like public or regulated services, intellectual property rights, investment protection).

Akin to issues raised by regulation in the single market, non-tariff barriers to trade and the inclusion of other issues such as investment protection interfere with political preferences on the role of the state in the economy and also highlight the role of regulation, which is also intrinsically political as it is based on values and beliefs. Acceptance is not a given and ratification more complex and uncertain once they encroach on member state competences. The market making versus market correcting issue, which features prominently in the internal market context, is an even larger issue in deep free trade agreements.

The contestation of CETA and TTIP in the EU showed that trust might be limited even with regard to a fellow G7 country. Still, there is no mutual recognition in EU international trade. The principle only exists in the single market framework and not with regard to third

¹⁵ The issue of harmonized standards for financial services is a case in point.

¹⁶ With respect to TTIP, Connell et al. (2018) argue the costs of non-TTIP are even larger if one takes into account complex global value chains. They conclude that while those potential benefits are substantial, they derive less from the abolition of tariff barriers than from non-tariff measures. Still, a comprehensive TTIP could harm third countries (Felbermayr, 2016).

countries. Instead, the EU may grant equivalence to third country regulation (which, unlike mutual recognition, is not automatic and can be revoked at relatively short notice). Young (2015) points out that the EU makes little use of regulatory coordination, that it customarily grants equivalence and that it does not try to export its standards.

The CETA case illustrated that rules on regulation in comprehensive trade agreements, such as through regulatory cooperation, mutual recognition or investment court arbitration, may come to limit the European and national policy space. Those were also key elements in the contestation of TTIP. The EU had been prepared to go further under TTIP with the US than the US had been under TPP, with deeper agreement on regulatory issues, covering three broad areas, namely market access, regulatory issues and non-tariff barriers, and rules.

To the extent that comprehensive agreements come to constrain market correction – for instance by pre-empting higher standards via regulatory coordination, putting downward pressure on existing ones via equivalence or limiting future regulation through investment protection – they can reinforce negative integration tendencies in the EU by putting downward pressure on standards through trade. To hope otherwise would require a notion of similarity with regard to third countries that is already stretched even within the Union.

It is worth noting that through the bilateral rules established in the context of a comprehensive trade agreement the EU may not only influence global norms and standards but that those also come to feed back into and interact with the EU's economic order in a way that traditional trade agreements have not. They can thus reinforce the European model or in case of weakening it, risk eroding trust of European citizens and economic agents in the Union.¹⁷ The matter is economically and politically sensitive at a time when the European model, as a result of the limited progress to date with respect to the EU's economic and institutional modernization agenda and on the belated implementation of the social pillar, is still not consolidated.

5. THE FUNDAMENTAL CHALLENGE FOR THE EU TO ADDRESS: A RULES AND VALUE-BASED INTERNATIONAL TRADE ORDER ON A SUSTAINABLE FOOTING

First and foremost, the EU is seeking to uphold the multilateral trade order, de-escalate trade conflicts and defuse looming trade wars. Doing so it is treading a fine line in its trade policy. For a global player like the EU it becomes a matter of credibility to adequately respond to US unilateral actions and not give in to threats, whereas it is not in its interest to let trade conflicts escalate and be drawn into trade wars. Those are costly in real terms once they pose a serious risk to activity in the short to medium term and to the outlook for global trade (ECB, 2018). The EU opted to engage with the US and to find some common ground; after all, there are some shared interests and concerns, such as WTO reform or issues with market access discrimination and intellectual property right protection in China. Bilateral trade remains important, regardless of the fact that the EU-US TTIP, the EU's first comprehensive trade agreement, intended to create a common transatlantic marketplace

¹⁷ Europeans' attachment to high sanitary, food and environmental standards (including upholding the precautionary principle) is illustrated by recent European citizens' initiatives to ban genetically modified organisms (GMO) or glyphosate.

with low barriers to trade and investment and with aspirations to shape the world trade order, ended up as the EU's only one that did not advance. Formally on ice by decision of the current US administration, the EU-US trade deal was very much contested in the EU where it proved unsellable in light of the reach of third country regulatory autonomy on EU territory. Still, as de Ville and Gheyle (2019) point out, TTIP had lasting if unintended effects on the evolution of EU trade policy.

The EU has pursued two parallel strands of action. To start with, it attempts to achieve a negotiated settlement with the US on the WTO. The EU regards the WTO, in particular its role in global trade disputes, as vital for upholding a rules-based international trading order. Since no clarity exists as to whether the US administration intends to reform the WTO or do away with it, the EU drew up reform proposals that take up the kind of complaints that the US has raised, in a move meant to test the US's willingness to work constructively on its critiques (and consequently lift its opposition to the judges on dispute settlement panels) or otherwise call its bluff with regard to its stated commitment to engage with the EU on WTO reform.

At the same time, the Union has, rather successfully, sought to augment and strengthen its trade ties and to strategically close ranks with like-minded trading partners.¹⁸ The shared concern - the new US stance did not only raise the EU's resolve to sustain free trade but also the importance of securing free trade for many other countries - has predictably promoted and accelerated new EU trade deals with existing and prospective trading partners.¹⁹

Apart from EU trade dynamism, US protectionism opened up a strategic space in which the Union could seek to also condition global trade in line with its preferences for growth with high environmental and social standards. The crucial question remains to what extent the EU is willing to put this capacity to good use.

The meeting between Commission president Juncker and US president Trump on 25 July 2018 in Washington, realized at the initiative of the EU, resulted in an agreement to suspend a war on trade tariffs and work toward an accord (European Commission, 2018). It also gives clues on the EU's priorities in trade and on the kind of compromises that the EU looks prepared to make in the name of external trade.

The EU managed to achieve a (even if temporary) truce (no additional US import tariffs on cars from the EU) as long as a perspective EU-US trade agreement is negotiated, without apparently making substantial concessions to the US. The US is to reassess (rather than lift, however) its punitive tariffs. The EU commits to raising imports from the US in certain sectors (more soybeans, which would make up for reductions of US exports to China, in face of Chinese retaliations to US policy, and more American liquefied natural gas (LNG), hereby competing with Russian gas and diversifying EU energy supplies). The parties also

¹⁸ For an explanation of this new policy stance, see Bongardt and Torres (2017). More recently, the EU has teamed up with Canada (a possible blueprint for agreements with other trading partners) to ensure that (bilateral) arbitration panels will be operational to deal with trade conflicts once the WTO's do not function any more for lack of judges.

¹⁹ For instance, CPTPP countries turned to the EU to make (or accelerate or deepen) free trade and investment deals. There has also been a fresh impetus for a number of free trade negotiations that were previously slow-moving or had stalled (among others with Japan, South Korea, and Mercosul) to upgrading existing ones (such as with Mexico).

commit to negotiating a comprehensive tariff reduction for industrial goods and a reform of the WTO (as referred above).

For the time being the truce holds but it is fragile. The scope of the agreement has turned out to be ambiguous apart from contentious within the EU (Is agriculture in or out? Is the idea to reactivate the wide TTIP or a reduced version of it?).²⁰ And to cement the truce, the EU has already made further offers (higher quotas for non-hormone US beef exports, to lift all car tariffs if the US reciprocates), however already qualified as insufficient by the US.²¹

If we accept the argument that what matters is that the agreement ended the escalation of tit-for-tat tariffs and averted a trade war (Gros, 2018), then the question at what price, if any, becomes relevant. After all, any potential benefits of reviving TTIP depend heavily on doing away with regulatory barriers. However, the TTIP was heavily contested because of the concern that any such deal might come at the expense of EU (present or future) standards (notably high sanitary, food and environment standards).

The EU Commission, often accused in the past of privileging trade liberalization over societal (labour, environmental) concerns, has hence committed to internalizing those concerns in trade and to protect the EU's high standards (European Commission, 2015). Judging by this measure, the EU-US agreement risks sending the wrong signals. The EU abandoned its customary defence of the Paris Climate Agreement and of environmental standards for the sake of achieving a suspension of US trade sanctions. And although any concessions may appear symbolic since higher imports of US soybeans and LNG rest on market decisions, those are two areas that happen to be rather sensitive on environmental grounds (genetically modified agricultural products and gas produced through fracking). The objective to internalize environmental externalities on efficiency and environmental grounds and to work towards the European model through external trade appears to have been sidelined in the name of trade. In fact, Young (2019) finds that the EU's updated trade policy in response to the politization of trade policy (TTIP, CETA) and anti-globalization movements reflects continuity with past practices.

6. CONCLUDING REMARKS ON EU TRADE AND THE EUROPEAN MODEL

Pragmatism that privileges trade over European values does not bode well for the defence and even less promotion of the European model through EU external trade policy. In the face of vocal criticism of the negative side effects of international trade, combined with the

²⁰ The Juncker deal risked disrupting European unity. Favoured by Germany (with an automotive industry strongly exposed to US sanctions), France rejects a wide TTIP-style agreement and the inclusion of agriculture. It is also opposed to the EU negotiating while sanctions are active. In any case, renewed trade negotiations would require a mandate for the Commission and the European Parliament would also have a word to say (limiting the role of expert groups).

²¹ Perhaps more importantly in practice, the US is already experiencing that in today's globalised world (with features like complex supply chains), trade policy can be a double-edged sword, so that tariffs hurt not only foreign but also domestic economic agents through more expensive inputs, and that trade partners retaliate against punitive tariffs, and prefers to focus more on China for the time being.

rise of populism²², the EU needs to face up to the challenge to condition globalization in order to make the European model work for and deliver results for its citizens, in line with European values and objectives.²³ Even though some progress has been made, the European Commission still needs to fully internalize those values also in its trade policy and actively push for them in order not to risk a backlash against international trade and the Union. With the US's commitment to the international trading order increasingly in doubt, the EU has a unique opportunity to be an anchor of an international rules and value-based system and to use its clout to push notably for high labour, environmental and climate standards in trade agreements, something that the European Commission has embraced in theory but seemingly not yet in practice.

In theory bilateral trade agreements offer the EU an easier and speedier way to advance European goals and project its values onto the global stage than multilateral forums. On the downside, they could also come to lower environmental and labour standards and give multinational firms the power to challenge national laws and limit the EU's and member states' regulatory space. A trade focus easily may – and we would argue did – lead the EU to overlook the complex and potentially broad consequences for society of the new generation economic and trade agreements. Suffice it to recall here that the EU only belatedly integrated the environment and the Paris Climate Agreement in recent trade deals (with Japan and South Korea) that it abandoned the climate issue to achieve a trade truce with the US, and that in the newest trade deal (the EU-Mercosul agreement), the potential environmental impact (of agricultural trade on the deforestation of the Amazon forest) might still derail the ratification of the mixed agreement.²⁴

In the authors' view, it is not only EU external trade that is at stake if a trade focus trumps the European model. It could damage trust in European institutions if EU wider objectives were to be alienated in the name of trade, to deliver growth in the short run, regardless of its quality and impact on society. The approach that the EU takes to global trade will define its credibility as a global actor but, perhaps more importantly, impact on the sustainability of the European integration project. The issue is whether the Union actively works towards a rules and value based international order, which delivers on EU preferences for quality growth and fairness and which prioritizes the overdue link between

²² The success of anti-EU populist parties in continental Europe, especially in France, derives partly from opposition to a (Anglo-Saxon-type) deregulated economic model and a neglect of the European model. It stresses the importance of fairness for the success of the European economy and of the European project. The social chapter is an expression of the EU seeking to complete its model in the social sphere. See Bongardt and Torres (2019).

²³ For Young (2019), the Commission's assessment of the politicization of trade policy is exaggerated. In his view its wrong assumptions have however produced the right policy, that is, a less politically fraught EU trade policy. That assessment does not take into account the importance of the European model for the future of the European integration project, which we want to stress.

²⁴ It is also not yet clear whether Brazil will stay in the Paris Climate Agreement, which would seem a precondition for the deal. Former French Environment Minister Hulot qualified the EU-Mercosul trade deal as completely contradictory to the bloc's climate goals (<https://www.climatechangenews.com/2019/07/01/eu-mercotur-trade-deal-will-drive-amazon-deforestation-warns-ex-minister/>, consulted on 14 July 2019). Often characterised as cows for cars, the trade deal has been criticized due to cattle being the biggest driver of deforestation of the Amazon (followed by soy beans and timber) and the violation of indigenous peoples' rights (<https://www.greenpeace.org/eu-unit/issues/democracy-europe/2122/eu-mercotur-environmental-destruction/>, consulted on 14 July 2019).

environmental sustainability and trade. EU's self-declared leadership role in combating climate change provides a test case for its resolve. After all, economic growth cannot be sustained over time if the limits of the planet are not accounted for nor is trade sustainable if negative externalities are not priced in.

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