



**Ministry for Foreign Affairs**

Department for International Trade Policy and the  
EU Single Market

## How to be strategic with trade defence

### Introduction

The COVID-19 pandemic has led to a global economic crisis. The EU can use this crisis as an opportunity to restructure weak and unsustainable parts of EU industry. This will be crucial to ensure that European industry remains competitive and help the EU to fulfil the commitments in the Paris Convention. In this context we need to look rationally at all tools available.

The EU has been and continues to be a firm supporter of free trade. The EU has at the same time introduced WTO compatible trade defence instruments to handle unfair trading practices like dumping of prices on the EU market as well as subsidies in third countries. A more strategic use of trade defence should obviate the need for new and un- tested ways to introduce trade measures against third countries.

The trade defence instruments are relevant to ensure correction of market distortions and obvious market failures. However, we need to be more aware of the possible problems following from overuse. We need to remember the key role that the EU competition policy has played to build up a strong EU industry. Furthermore, empiric studies show that the **overall cost for society is between 4 and 5 times the gain** for the EU company (ies) protected through anti-dumping measures.<sup>1</sup> A study of US trade defence measures against Chinese tires showed that the cost per job saved was at least USD 900,000<sup>2</sup>. On top of this it is often the case that **third country operators** are those taking advantage of the measures.

Trade policy provides useful tools – for which the application needs to be adjusted to ensure efficiency.

If not used properly trade defence tools may:

1. Support companies that do not need support. For example, current anti-dumping duties protect a European manufacturer of artificial sweetener that has 75% market share and 33% profit margin.
2. Contribute to weaken EU industry by increasing prices of crucial inputs. For example, a recent case of definitive anti-dumping duty on imports of certain polyvinyl alcohols originating in the People’s Republic of China (AD654).
3. Artificially prevent competition for parts of EU industry that is not sufficiently competitive and thereby preventing or at least delaying in time the necessary restructuring/modernisation of this part of industry. It is in general far more cost effective to give direct economic support than use trade restrictions.
4. Raise obstacles to the Green Deal, as described in a recent study.<sup>3</sup> Examples include anti-dumping and/or anti-subsidy measures against products that are needed in renewable energy such as glass fibre products, solar glass and solar panels.

The **EU Court of auditors** has recently reviewed the Commission’s work on trade defence measures. From the report it is clear, that overall the Commission is handling the defence instruments in a correct way. **The Court does however note that regarding the criteria for the “union interest” the Commission should look more broadly at economic consequences for EU at large as well as taking overall competition aspects more into account.** In SE view this is an important point. **It would be important to explore the possibility also to take sustainability further into consideration.** To follow the Court’s

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<sup>1</sup> The National Board of Trade Sweden (2014). *Do EU Producers and the EU Economy Really Benefit from Anti-Dumping Policy?* <https://www.kommerskollegium.se/globalassets/publikationer/rapporter/2016-och-aldre/do-eu-producers-really-benefit.pdf>

<sup>2</sup> Hufbauer, Clyde G. & Lowry, S. (2012). *US Tire Tariffs: Saving Few Jobs at High Cost*. Peterson Institute for International Economics. <https://www.piie.com/publications/policy-briefs/us-tire-tariffs-saving-few-jobs-high-cost>

<sup>3</sup> The National Board of Trade Sweden (2020). *Trade Barriers to Goods and Services Important for Climate Action – and opportunities for reform*. [https://www.kommerskollegium.se/globalassets/publikationer/rapporter/2020/trade-barriers-to-goods-and-services-important-for-climate-action\\_webb.pdf](https://www.kommerskollegium.se/globalassets/publikationer/rapporter/2020/trade-barriers-to-goods-and-services-important-for-climate-action_webb.pdf)

suggestion and look more into the union interest in a broad sense should contribute to a far more strategic approach to trade defence.

### Proposals for more strategic use of trade defence instruments

#### 1. *A limitation of the use of measures giving a broader interpretation of the concept of "Union interest"*

with a) clearer focus on the overarching and long-term economic interest of the EU. Investigations should include an assessment of the costs of the proposed measure for the rest of the economy and the environmental impact.

and b) a stronger emphasis on the strengthening of competition in the internal market.

Besides a purely legal consideration it will be crucial to pay far more attention to the overall appropriateness of a given TDI measure also from an economic point of view. This consideration should include an analysis based on, in particular, macro-economic data regarding GDP and employment.

#### 2. *More transparency*

The Commission could provide more transparency on trade defence if it would a) publish numbers on measures in place b) from time to time analyse and publish the cost per job saved through trade defence measures.

#### 3. *Measures need focus*

Trade defence is meant to handle specific issues – dumping and subsidies - not to solve problems in other policy areas.

#### 4. *Let measures expire*

In order to make the EU approach to trade defence more strategic it would also be important to look at the phasing out of measures related to sectors with a long-term protection, for instance in the steel sector.