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## The New Wave of Defensive Trade Policy Measures in the European Union: Design, Structure, and Trade Effects

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**Brussels, Belgium, 11th May 2022** - This study undertakes a comprehensive review of proposed and adopted defensive trade policy instruments in the EU, with the purpose of better understanding their design, functioning, and implications. The study covers eight policy instruments at different stages of development. These are: Anti-Coercion Instrument (ACI), International Procurement Instrument (IPI), Carbon Border Adjustment Mechanism (CBAM), Foreign Subsidy Instrument (FSI), Corporate Sustainability Due Diligence (DD), Level Playing Field Provisions in the EU-UK Trade and Cooperation Agreement (LPF), Enforcement Regulation (ER), and the Deforestation Initiative (DI).

The instruments share some important general characteristics. Many of the instruments have been created as retaliatory measures against coercion and unfair trade practices by partner countries. Very often, the partner countries most affected by the instruments are also the same, due to the significant volumes of trade and economic interdependence with the EU. With these instruments, the objective for the EU is not just to create an equal playing field but also to ensure that the rest of the world follows EU rules. Particularly, the EU aims at regulating non-EU companies directly and unilaterally through EU policies, which increases the risk of retaliation against the EU. At the same time, there are also important areas of departure in the specifics of each instrument, as illustrated by the varying objectives, measures, compatibility with international obligation, affected sectors, and implementation.

It is understandable that the EU seeks these measures in its trade policy. However, in their totality, they represent a significant policy shift, making the EU more inward-looking. This can lead to an

extensive distortion of trade and markets which would reduce the gains from trade and prompt a reallocation of European resources. There are also potential strategic consequences that could follow, and their importance has increased considerably as a result of the Russian war against Ukraine. Under these measures, the EU could introduce new trade frictions with friends and allies, and with countries that the EU seeks closer cooperation with to provide for a safer geopolitical environment.

As stressed by Fredrik Erixon, one of the authors of the study, *“The new geopolitical situation is prompting questions on deeper economic integration among allies. Many of the defensive measures proposed would have consequences for trade with allies such as the United States. Interestingly, some would especially hurt exports from countries like Ukraine, and it is unlikely that the EU would want to stick with such policies. Hence, the unfolding geopolitical questions should prompt the EU to re-consider the design of some of these measures.”* The toolkit of defensive policy instruments thus, needs to be thoroughly assessed for its negative and positive consequences, in totality and individually, the results of which are comprehensively presented in this study.

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