



**Chambers  
Ireland**  
Advancing business together

# Chambers Ireland submission to the European Commission on the review of the EU's Trade and Investment policy

November 2020

Chambers Ireland represents the largest network of businesses in Ireland. With Chambers, located in every city and major town, we are uniquely positioned to understand the needs and concerns of Irish businesses and to represent their views. We are members of the association of European chambers of commerce, *Eurochambres*,<sup>1</sup> which represents over 13 million businesses across the continent, and the *International Chamber of Commerce* (ICC), the largest business representative organisation in the world. As a member, Chambers Ireland acts as the Irish national committee of the ICC which allows it to communicate its views on international trade on behalf of its members to the intergovernmental organisations that legislate on international trade.

Drafted in correspondence with our Chamber Network and associated policy fora, Chambers Ireland is pleased to have the opportunity to make this submission to the European Commission, focusing on ways in which the EU's trade and investment policy development can progress so that businesses, particularly SMEs, will be able to fully benefit from both current and future trade agreements and new international markets.

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<sup>1</sup> Chambers Ireland has supported EUROCHAMBRES in their publication of a comprehensive Position Paper on the [priorities for the new Commission](#) on how to achieve a stronger Europe in the world, and their [recommendations](#) on what external policy measures in response to Covid-19 to boost our collective recovery.

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## Introduction

Ireland is a small open, trading economy and our businesses are competing in an ever-globalised marketplace. International trade and investment continues to be of huge importance for both the Irish and European economy, having shown their worth as stabilising forces and softening the recession when domestic demand remained weak following the 2008 crisis. Covid-19, coupled with Brexit, is set to increase the importance of EU trade policy even more as national and European economies address the challenges that both events will undoubtedly generate.<sup>2</sup>

The OECD's 2019 review of SME and Entrepreneurship Policy in Ireland broadly described the Irish environment in which SMEs and entrepreneurs operate as "favourable" with a solid and comprehensive set of programmes targeted to continuously improve the sector.<sup>3</sup> That does not ignore the fact that greater supports for entrepreneurs and SMEs are required if micro-enterprises are to continue grow and succeed at home and abroad.

While the sector accounts for 99.7% of active enterprises in Ireland, it produces less than 20% of national output. The review also found that even fewer – 6.3% of the total – export anything, putting Ireland at the lowest level among all 36 OECD members. By contrast, almost 37% of Dutch SMEs export, while German and British firms average around 17.5%.<sup>4</sup> Small businesses face significant barriers to growth, when compared to larger MNCs, due to the costs associated with scaling, whether that is hiring additional staff, finding new markets or investing in their business. With that in mind, the "Think Small First" principle must become more deeply embedded in European trade and investment policy to increase competitiveness and boost the exporting potential of this sector.<sup>5</sup> This will be further explored in the discussion hereafter.

Ireland's level of direct SME exports, and the share of SMEs in total domestic value added in exports, are very low by international standards. The OECD reports that approximately 6% of Irish SMEs directly trade across borders.<sup>6</sup> Of that, a high share trade *only* with the neighbouring UK market – something which will become more complex next January. Post-Brexit, Irish businesses will not only have to deal with the impact of weak sterling on trade flows, but also the future complexity of operating under dual regulatory frameworks, new overheads associated with trading with a non-EU country; additional supply chain complexity; and new competitive and market access pressures. There is a growing need for SMEs to branch out to reduce their exposure post-Brexit.

The Covid-19 crisis continues to pose enormous challenges for our globally highly interconnected European economies and as a global pandemic, it will require global solutions to fully tackle the problem. Research continues to show that open economies grow faster than relatively closed ones.<sup>7</sup> The temptation to become more protectionist during a pandemic is misplaced. It has never been more important to make the case that trade matters and that trade supports sustainable economic growth.<sup>8</sup>

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<sup>2</sup> Ireland imported 59% of its total goods from the EU in 2019 and the single largest supplier was Great Britain, from which 21% of all goods were imported. Central Statistics Office (2020), *Statistical Yearbook of Ireland 2020 – Trade*.

<sup>3</sup> OECD (2019), *SME and Entrepreneurship Policy in Ireland*.

<sup>4</sup> Ibid.

<sup>5</sup> Small businesses face significant barriers to growth, when compared to larger MNCs, due to the costs associated with scaling, whether that is hiring additional staff, finding new markets or investing in their business.

<sup>6</sup> OECD, *SME and Entrepreneurship Policy in Ireland*.

<sup>7</sup> OECD (2020), *Why open markets matter*.

<sup>8</sup> Ibid.

The UN SDGs provides a framework for this type of sustainable economic growth. Chambers Ireland and our member chambers strongly advocate for the implementation and promotion of the SDGs.<sup>9</sup>

The last review of the EU's trade and investment policy took place in 2015. Since then, the state of global governance and trading relations has changed dramatically. Chambers Ireland is very supportive of this review and the development of an ambitious trade and investment agenda that will open new markets and make them more easily accessible to Irish and European businesses alike. This aim can only be achieved if the Union's trade policy is able to incorporate the aspirations of European citizens and businesses and provide coherent responses, based on the ongoing and unconditional defence of the common interest and values of the 27 member states.

## Issues for Consideration

### **Q1: How can trade policy help to improve the EU's resilience and build a model of open strategic autonomy?**

Trade has become increasingly exposed to the volatility of international relations. Tensions among the major global economies, a rise of unilateralism and economic nationalism, stronger involvement of the state in the economy, the weaponisation of trade policy for economic or geopolitical objectives – all of these factors have led to a weakening of global governance structures generally, and the multilateral rules-based order in particular.<sup>10</sup>

Speaking with one voice to represent a market of 450 million consumers, trade policy can be an important vehicle for European leadership on the global stage.<sup>11</sup> Beyond the economic benefits, trade policy plays an important role in promoting and protecting the EU's values and standards, both at home and abroad. Promoting values (in relation to inter alia human rights, environment/climate, social and labour rights, sustainable development, and gender equality) has become an integral part of the EU's commitment to a more sustainable and responsible trade policy.<sup>12</sup>

In particular, the Covid-19 pandemic has shone a spotlight on the complexity of global supply chains for essential products, be they medicine or personal protective equipment (PPE). We support the call by our colleagues in Eurochambres to examine the potential of establishing a Strategic Supply Chain Diversification Fund to complement the EU Recovery package. The devastating economic impacts of the global pandemic has clearly exposed vulnerabilities in the EU's strategic supply chain security through overdependencies on single suppliers. Increasing European resilience and diversification must therefore be a cornerstone of the EU's future strategic actions. More can and should be done to support enterprises who want to diversify their supply chains but are financially unable to do so following the devastating impact the Covid-crisis. Together with an ambitious trade agenda the

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<sup>9</sup> In September 2019, on the fourth anniversary of the Goals, all affiliated Chambers across Ireland announced that they had pledged their commitment to uphold, promote and implement the SDGs throughout the work that they carry out and the policies that they seek to create and influence. Chambers Ireland and our network are also well represented internationally through our membership of the ICC which is the only business representative organisation with UN Observer status, and as a result has been very proactive in the implementation of the SDGs within the business community, including the production of a Business Charter for Sustainable Development. The ICC's *Business Charter for Sustainable Development* can be accessed [here](#).

<sup>10</sup> Ibid.

<sup>11</sup> European Commission (2020), *A renewed trade policy for a stronger Europe*.

<sup>12</sup> European Commission (2020), *A renewed trade policy for a stronger Europe Consultation Note*.

strategic supply chain diversification fund should be a central pillar to achieving a more diversified and resilient European economy post-pandemic.

Further, as part of the Commission's new Trade Strategy, Europe must also strive to remain a global leader and exporter of innovative products, such as medicines. Future Free Trade Agreements (FTAs) should include provisions on strong Intellectual Property rights and enforcement as well as provisions which guarantee equal and non-discriminatory market access and regulatory cooperation.

EU Trade Policy must now strive to strengthen the place of Europe's SMEs in global supply chains, specifically by promoting the "Think Small First" principle. It must support the full range of economic activities through which Europeans create and sell value. Trade policy will need to tackle a wide range of issues to secure its place in global value chains, while supporting SMEs in solidifying and diversifying their supply chains. This has been exacerbated by the Covid-19 pandemic and our overreliance on external markets and international supply chains for PPE. The solidification and diversification of European supply chains will require the EU to:

- promote trade in services
- facilitate digital trade
- support the mobility of professionals
- address regulatory fragmentation
- secure access to raw materials
- protect innovation
- ensure the swift management and practical operation of customs procedures.

Joined-up strategy across different areas of economic policy will also need to ensure responsible management of supply chains and to address aggressive corporate profit shifting and tax avoidance strategies that make use of the fragmentation of value chains.

To achieve this, trade policy must be proactive in promoting international environmental, social and good governance standards in partner countries, as well as ensuring that our own EU values and standards are not undermined. Trade policy must contribute to addressing the generational challenges – notably the green and digital transition – as set out in the Commission's political priorities.<sup>13</sup> By promoting EU values and standards through future trade policy, the EU will be in a much better position to set standards for its trading partners in areas such as environment, social and labour rights, human rights, and gender equality.

## **Q2: What initiatives should the EU take – alone or with other trading partners - to support businesses, including SMEs, to assess risks as well as solidifying and diversifying supply chains?**

Diversifying and solidifying supply chains will make the European economies less vulnerable and less exposed to power politics in the future. Of most importance to Ireland in this regard is that the EU

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<sup>13</sup> European Commission (2020), *The European Digital Strategy*.

ensures that SMEs, in particular, are supported to assess risks and to diversify supply chains as the transition closes and the UK fully leaves the Single Market in January 2021.

The UK is one of our most important trading partners, and the primary market for many Irish businesses due to its size, ease of access, shared languages, similarities in culture and consumer tastes, and comparable legal framework. Post-Brexit, Irish businesses will not only have to grapple with the impact of weak sterling on trade flows, but also the future complexity of operating under dual regulatory frameworks, new overheads associated with trading with a non-EU country; additional supply chain complexity; and new competitive and market access pressures.

The EU can help both Irish and European businesses in protecting themselves from the likely post-Brexit fallout and rising international tide of protectionism by implementing the following measures:

- **Cost assessments of entering new markets:**

The cost of entering a new market weighs more heavily on SMEs than larger firms. Establishment, conformity assessment, authorisation of products and recognition of professional qualifications may have the same nominal costs. However, they have a greater impact on SMEs who have fewer resources for internationalisation, penetrating new markets, overcoming trade and investment barriers and complying with regulation.<sup>14</sup>

The Commission should consider conducting cost assessments for SMEs from a range of sectors looking to expand into new markets, and/or diversifying supply chains, so as to act as a baseline indicator for the financial strain that such a move may place on a business. The Commission should also conduct regular surveys on barriers SMEs face in specific markets and work more closely with SME representative bodies, such as Chambers, to better understand their needs.

- **SME Chapters in all trade negotiations:**

Having the world's most competitive SME's, it remains critical for the EU to prioritize SMEs in future trade policy and show leadership in pursuing an inclusive and ambitious SME agenda in its bilateral agreements, and by making sure the benefits of trade reach SMEs through a more coherent and efficient implementation agenda.

Large companies may be able to afford legal and economic advice on regulatory requirements which many SMEs may not. FTAs can be more SME-friendly and accessible, for example, by establishing government information portals that act as a one-stop-shop for all information on relevant product, customs, and regulatory requirements. The European Commission should therefore include dedicated SME provisions in all negotiations with trading partners, including dedicated web portals to facilitate access to information on product requirements in foreign markets, opportunities provided by FTAs, and available support.

In addition, the Commission must take into account SME specificities in all chapters of trade and investment negotiations and coordinate with national trade promotion policies and SME internationalisation efforts, for example in the context of the 'enhanced implementation partnership'.<sup>15</sup>

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<sup>14</sup> European Commission (2015), *Trade for all: Towards a more responsible trade and investment policy*.

<sup>15</sup> Ibid.

### **Q3: How should the multilateral trade framework (WTO) be strengthened to ensure stability, predictability and a rules-based environment for fair and sustainable trade and investment?**

With rising trade tensions, the escalation of trade disputes and a collapse of good governance, the collapse of the WTO Appeals Body is hugely regrettable. A rules-based, non-discriminatory and equitable trading system is not only in the interest of all trading partners but is essential to preserving the interests of the poorest and most vulnerable economies.

Europe has a vital interest in the preservation of a rules-based system, but it needs to rethink the elements of that order for a new global trading environment. The EU can best uphold such a rules-based order by ensuring its continuity within the EU27 through supporting liberal values abroad. This can be achieved through the use of European economic power and alliances with like-minded third countries, and adjusting its strategy to protect the order's core elements in an era in which illiberal states have growing power.<sup>16</sup>

Commission President von der Leyen set out in her State of the Union address in September that the EU needs to lead on the reform of the WTO. For the future negotiation agenda at the WTO, an ambitious SME agenda must be implemented. We urge the EU to make this a priority as part of its WTO reform agenda, as global trade rules must be more inclusive and more amenable to cater to the needs of SMEs. This needs to be acted upon promptly.

Ireland is a very small but very open economy and relies on these structures to ensure there is an even playing field. For many years, the dispute settlement function of the WTO has proven of vital importance in ensuring all trading partners play by the same rules. The threat of a hard Brexit and further economic and trade disruption is a very real prospect following the breakup of the seventh round of negotiations and the British Government's dubious commitment to the Withdrawal Agreement. Businesses, both in Ireland and in the EU, are already suffering significantly as a result of Covid-19. A 'hard' Brexit will act as a hammer blow to many of those that are surviving on the margin at the moment. The EU must do everything that it can in the ongoing negotiations with the UK to preserve the rules-based environment. It is imperative the Commission adopts a pragmatic approach to resolving trade disputes and pursuing new alternative means that avoids tit-for-tat retaliation when relations begin to breakdown.

Lastly, the multilateral trade framework should be guided by the UN SDGs. If the reform effort of the WTO is to effectively respond to the challenges faced by all trading nations, it must be both fair and legitimate to ensure a sustainable rules-based environment. The EU should make greater use of its economic leverage in this way by supporting the COP21 agreement by further promoting trade deals that incorporate environmental requirements for all parties, and by implementing a carbon border-adjustment tax at the EU's borders.<sup>17</sup>

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<sup>16</sup> Anthony Dworkin and Mark Leonard (2018), *Can Europe save the world order?* European Council on Foreign Relations.

<sup>17</sup> Ibid.

#### **Q4: How can we use our broad network of existing FTAs or new FTAs to improve market access for EU exporters and investors, and promote international regulatory cooperation?**

Europe has the world's largest network of trade agreements which is a testament to the strength of Europe's negotiation teams. However, while Europe undoubtedly has a very successful track record in terms of developing the world's largest network of trade agreements, it has not done as well in ensuring an optimal uptake of its trade agreements among its business community – especially among SMEs. This can be somewhat also attributed to the complex internal structure of the European Union, in which the EU is exclusively competent for negotiating trade agreements, but it being up to the Member States to implement them. In this regard the performance of Member States varies, sometimes considerably. It is therefore an inherent European business interest to ensure an overall effective and coherent implementation strategy, to ensure that SMEs, regardless of where they are located, can have the same means to benefit from EU FTAs.

Despite recent noteworthy improvements such as the annual publication of an EU trade implementation report and the establishment of the Market Access Partnership, the interplay between the relevant actors still needs to be further strengthened, as still too many of the over 22 million<sup>18</sup> European SMEs are not aware of the EU trade agreements, and are not sufficiently instructed on how to use them.

#### **An Action Plan for Trade**

Addressing the FTA implementation challenge means that the EU has a significant economic opportunity to achieve more sustainable growth and more jobs for its citizens, by ensuring that its companies – particularly SMEs – actually use these agreements to their fullest and take advantage of the opportunities that open foreign markets can provide for them.

With this in mind, an Action Plan for Trade should be considered as a practical vehicle through which the Commission and each of the Member States would commit to voluntarily and in accordance with their respective national competence, to implement concrete actions and activities in their nation states, through politically binding action plans that accompany the ratification of major EU trade agreements.

The commitments by each Member State would, in their entirety, form a European-wide Action Plan for Trade, increasing national political priority for its implementation, as well as increasing the accountability of national governments towards their respective business communities. In this respect, the Action Plan would complement the intra-EU “external” implementation roadmaps that the European Commission has already committed to alongside its trade agreements, and which should contribute further to an effective monitoring of the actual transposition of negotiated FTA commitments in a respective third country.

To best attain increased political priority and boost the benefits for business, the Action Plan for Trade could be presented and consequently updated at a targeted Ministerial level meeting in the Council on an annual basis, back-to-back with the publication of the European Commission's annual implementation report. This would enable for an effective monitoring and benchmarking on the concrete implementation actions undertaken by the relevant actors. It would also present new

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<sup>18</sup> European Commission (2020), *Small and medium-sized enterprises: an overview*.



opportunities for intra EU-cooperation, as well as for EU support to accompany planned efforts by governments and the business community at national and regional level.

The Action Plan should aim to include:

- Building targeted national implementation partnerships with the national business community to ensure tailored and structured implementation efforts in each Member State, notably involving Chambers of Commerce as prime interlocutors for businesses
- Identification of exporting SMEs and those with export potential (perhaps on a sector-by-sector basis and with targeted third countries)
- Elaboration of national trade implementation reports mirroring the European initiative to increase transparency, accountability, and the availability of comprehensive data on all pertinent aspects of implementation (goods, services, standards/non-tariff barriers, etc) at national/regional level for the respective EU trading partners
- Together with the Commission, commit to an EU-wide political target of a **75%** preference utilisation rate for existing EU FTAs
- Commitment for general and targeted roadshows with the business community, specifically targeting SMEs
- Dedicated websites for EU Trade Agreements that are easily accessible for exporting businesses, and those who may wish to enter into the exporting market where information such as tariffs, required customs documentation, nuances in exporting markets, etc is all easily accessible
- More dedicated resources for the Revenue/Customs officials in Member States so that they can provide workshops for businesses to better understand tariffs, certificates of origin, documentation requirements, etc. SME engagement in international activities may be hindered by limited information and understanding about target foreign markets. This limits the ability to customise products to the diverse needs of consumers and to meet product requirements and standards under local regulatory environments
- Provision for an annual FTA review on how successful each Member State is in utilising trade agreements. This is an area where the Commission lacks capacity, as trade promotion is a competency of Member States to support SMEs to understand trade, therefore budgetary constraints of individual government departments may hinder this.

In the design stages of this, the European Commission should take the following steps to ensure its success:

- Enable more coherent joint outreach activities at national level with the Member states and the national business communities through the EU delegations on the ground and increased collaboration with the Chamber network
- Enhance promotion and awareness at national level of the Market Access Database (MADB), outreach material relevant to each Member State; exporter stories; comprehensive and user-friendly factsheets for specific agreements, etc.
- Dedicate a separate and comprehensive section for SMEs in the annual European Commission implementation reports to precisely examine how EU trade agreement have been utilised by EU SMEs

- Ensure the prompt establishment of a directory for rules of origin to enable SMEs to calculate online and free of charge whether their specific product complies with the rules of origin of markets with which the EU has a trade agreement with
- Expand future information commitments in EU SME chapters to services so as to further increase uptake by SME service providers
- Work with different Directorate Generals and the European Parliament to identify European initiatives which could support European businesses and Member States implementation efforts with regards to a given third country partner
- Focus on reducing administrative burdens and making it easier for companies to use digital tools (such as e-signatures). SMEs need additional support to access data and reduce red tape through digital solutions. The use of one-stop-support-shops and simplifying online administrative procedures should be encouraged.

**Q7: What more can be done to help SMEs benefit from the opportunities of international trade and investment? Where do they have specific needs, or particular challenges, that could be addressed by trade and investment policy measures and support?**

Policy plays a key role in overcoming the barriers to SME integration into global markets. The complex web of global production highlights that a broad range of policies can matter, from services trade to efficient domestic markets.<sup>19</sup>

Stronger participation by SMEs in global markets creates opportunities to scale up and enhance productivity, by accelerating innovation, facilitating spill-overs of technology and managerial know-how, and by broadening and deepening the skillset. International exposure, whether through imports, exports, or foreign direct investment (FDI), goes frequently hand in hand with higher productivity, and can be an important driver of employment growth.<sup>20</sup>

However, SMEs disproportionately suffer from cumbersome border procedures, making them the biggest beneficiaries of greater trade facilitation. Relative to their share of overall activity and employment, SMEs account for only a small proportion of exports. In most OECD economies, for example, SMEs account for upwards of 95% of all firms (almost 99% in Ireland), around two-thirds of total employment and over half of business sector value-added, but their contribution to overall exports is significantly lower – between 20% to 40% for most OECD economies.<sup>21</sup> By developing easier, quicker and less expensive processes this will allow many companies to trade internationally for the first time, integrating global value chains.

- **Harmonisation of Standards**

The lack of harmonisation of standards across countries is also a barrier for many SMEs. Complying with each final destination market's regulations and standards can require firms to make costly investments in adapting production processes, specific packaging and labelling or undertake multiple certification processes for the same product.<sup>22</sup> Mutual recognition and convergence of regulatory standards would reduce the burden of compliance for small-scale

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<sup>19</sup> OECD (2018), *Fostering greater SME participation in a globally integrated economy*.

<sup>20</sup> Ibid.

<sup>21</sup> Ibid.

<sup>22</sup> Ibid.

exporters in particular, enabling them to benefit more from the opportunities of international trade and investment.

- **Reduce the complexity of administrative and customs procedures**

The complexity of customs procedures and quality of transport infrastructure affect the cost of accessing export markets and importing intermediates. This raises compliance costs and causes delays, the latter requiring firms to hold larger inventories and working capital, which is a particular hurdle for SMEs. Promoting policies that streamline border procedures, simplify trade documents and automate border processes is likely to help SMEs in particular. There is no one-size-fits-all institutional arrangement for countries to implement logistics-related reforms. However, changes to reduce administrative burdens by introducing digital tools (such as e-signatures) would greatly reduce administrative red tape. The use of one-stop-shops to provide support and help simplify online administrative procedures should be likewise encouraged.

- **Investment in Skills and Organisational Capital**

Upgrading technology and scaling-up production requires skills and organisational capital. In this regard, supporting investment in skills is critical, such as through policies that combine high-quality initial education with vocational education and lifelong learning opportunities, as well as initiatives that support SMEs in attracting talent and appropriate skills to undertake international trading.<sup>23</sup> The Commission should explore the opportunity to offer targeted programmes for SMEs that support organisational training and skills development to boost the internationalisation trading and investment process of SMEs.

**Q8: How can trade policy facilitate the transition to a greener, fairer and more responsible economy at home and abroad? How can trade policy further promote the UN Sustainable Development Goals (SDGs)? How should implementation and enforcement support these objectives?**

Enhancing awareness and understanding of sustainability is vital to promoting priority setting in policy making, as well as to helping enable sustainable development and growth. In this context, it is essential that all actors in the economy, including governments, intergovernmental bodies, businesses, civil society and consumers view sustainable development and growth as a shared responsibility and that they all take action on as appropriate, locally and globally, for the challenges and benefits associated therewith to be, respectively, met and fully harnessed.

In this context, business has an essential role to play in fostering sustainable growth, as well as a direct interest in helping bring solutions to global sustainability challenges. With a large range of global business leaders already engaged in sustainability actions, it is critical that new forms of innovation and co-operation continue to be explored, both within the business community, as well as by and with governments, so as to accelerate and ultimately achieve the transition towards more sustainable growth patterns.

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<sup>23</sup> Ibid.

The SDGs are benchmark for sustainable development both in Ireland and globally. As previously mentioned, our network of chambers uses the UN SDGs to prioritise our policy analysis and recommendations.

The transition towards a more sustainable global economy is a priority for Chambers Ireland and our partners in Eurochambres. The Covid-19 crisis gives European economies an opportunity to build back better and greener. European businesses are already world leaders in many green technologies and solutions – from renewable energy and clean tech to energy efficiency, and our businesses see many opportunities in the transition towards circular economies. European business produces these innovations under high environmental, labour and social standards, which why the international adoption of European Standards entails a competitive advantage for our economy, particularly in sustainability. The EU should also use its trade agreements to actively incentivize our trading partners to raise their environmental and labour standards to internationally agreed norms, in particular the SDG's and the Paris Agreement.

Compliance with these norms is very important and the proposal for a new Chief Trade Enforcement Officer as having a key role towards improving the track record of partner countries in terms of compliance is very welcome. However, sanctions in a trade and sustainable development chapter are not a viable option and risk adding uncertainty to trade at a time when business needs above all predictability.

In order to achieve a green transition in Europe, the continued access to raw materials and intermediate products in other markets are essential parts of EU supply chains and we would recommend that the Commission is cognisant of the importance of this access as it drafts its new trade strategy.

### **Q9: How can trade policy help to foster more responsible business conduct? What role should trade policy play in promoting transparent, responsible and sustainable supply chains?**

Expectations around responsible business conduct are founded on the premise that all businesses – regardless of their legal status, size, ownership structure or sector – should make a positive contribution to the economic, environmental and social progress of the countries in which they operate, while at the same time avoiding and addressing negative impacts of their activities, including throughout the supply chain and business relationships. As companies increasingly invest in emerging and developing countries, responsible business conduct helps firms strengthen their long-term investment perspectives while also contributing to the UN SDGs.

The principles of responsible business conduct emphasise the importance of integration of environmental and social issues within core business operations, going beyond the traditional concept of corporate social responsibility, which is often understood as being separate from core business. A key element is risk-based due diligence, a process through which businesses identify, prevent, and mitigate actual and potential adverse impacts, and account for how these are addressed.<sup>24</sup>

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<sup>24</sup> Ibid.

Many EU member states, including Ireland, have published National Action Plans to implement the UN Guiding Principles on Business and Human Rights. These National Action Plans aim to educate and assist businesses to better understand the impacts of business conduct on human rights. In particular, they emphasise the complexity of global supply chains and the need for businesses to become more aware of how exposed some operations can be to human rights abuses, particularly the unintended impacts. Protecting human rights and preventing abuse should be a pillar of the EU's new trade strategy. We believe there is an opportunity to make use of centralised trade resources (like the Access to Markets portal) to share information on issues such as child labour, trafficking, conflict mineral and exploitation, as can occur in complex global supply chains and more vulnerable markets. Supporting business to understand risk, human rights, and helping them to conduct the proper due diligence should be part of the new trade strategy.

However, we would caution the introduction of mandatory due diligence requirements at the outset. Such requirements could add to difficulties in accessing markets, contribute to uncertainty and could be particularly burdensome on SMEs, who often only have limited resources.

**Q10: How can digital trade rules benefit EU businesses, including SMEs? How could the digital transition, within the EU but also in developing country trade partners, be supported by trade policy, in particular when it comes to key digital technologies and major developments (e.g. block chain, artificial intelligence, big data flows)?**

With an increasingly knowledge-based economy, Ireland stands to benefit significantly from an effective European Digital Single Market (DSM). In 2019, e-commerce sales accounted for 38% of total sales for large enterprises and 29% of total sales for medium and small sized enterprises respectively.<sup>25</sup> Driving the completion and enforcement of the EU Single Market in digital services and e-commerce must be a priority for the Commission, as this would greatly facilitate the ease of doing business online, particularly for SMEs. Although compliance costs are usually greater in cross-border trade for smaller firms than for larger firms, e-commerce means even small online businesses can access customers across the globe. As the world's largest services exporter, the EU is in a strong position to benefit from this.<sup>26</sup> A fully functional DSM would bring many benefits to European businesses and consumers by promoting innovation, and contributing a predicted €829 billion to the European economy by 2025 (representing 5.8% EU GDP),<sup>27</sup> along with almost 11 million jobs.<sup>28</sup>

Digitalisation has proven to reduce time and costs associated with engaging in international trade, increasing business connections and consumer globally, helping diffuse ideas and technologies, and facilitating the co-ordination of global value chains. Today, more small parcels and lower-value digital services (applications) are being traded internationally; more services are becoming tradeable; and goods and services are increasingly bundled in 'smart' products.<sup>29</sup> The pandemic lockdown boosted internet shopping and online business models, creating a trend that is likely to only accelerate in the coming months and years, with more companies switching to digital to do business. However, the online environment is currently dominated by a number of large platforms. Their position – and their

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<sup>25</sup> Central Statistics Office (2020), *Statistical Yearbook of Ireland 2020 – e-Commerce as a percentage of total sales, 2019*.

<sup>26</sup> European Commission, *Trade for all: Towards a more responsible trade and investment policy*.

<sup>27</sup> European Commission (2020), *European data strategy*.

<sup>28</sup> Ibid.

<sup>29</sup> OECD (2019), *Trade in the Digital Era*.

greater access to key data resources – has an impact on the ability of SMEs to start up, scale up or make the most of the Single Market and its trading partners.<sup>30</sup> SMEs need to be supported in the digitalisation process so that consumers do not need to turn to larger platforms to shop online while businesses remain closed throughout the pandemic.

The digital economy also means that new types of trade barriers must be addressed. The collection, storage, process and transfer of data (including economic, financial, statistical and scientific information) and its digitalisation have become an integral part of modern business models, including for manufacturing firms. They are, in fact, central to the development of global value chains.<sup>31</sup> As a result, the free flow of data across borders has become more important for European competitiveness in general. Regulatory cooperation, mutual recognition and harmonisation of standards are the best tools to address the challenges of the digital economy. Ensuring that the Digital Single Market works for businesses across all 27 member states will be hugely important in the coming years, as the cross border trade of digital goods and services becomes a much larger part of all of our economies.

**Q12: In addition to existing instruments, such as trade defence, how should the EU address coercive, distortive, and unfair trading practices by third countries? Should existing instruments be further improved or additional instruments be considered?**

With an expected global trade decline that will be more severe than the one witnessed during the 2008 financial crisis, the EU must take prompt action to safeguard global trade in goods and services, maintain global supply chains, as well as export markets and import supplies. Geographical diversity is key to the resilience of global supply chains. The temptation to become more protectionist is misplaced.

A commitment to openness must remain at the centre of the EU's Trade and Investment policy to promote future growth, prosperity and competitiveness. However, such openness must not be abused by unfair, hostile or uncompetitive trading practices. The EU needs to stand firm against unfair trade practices through the introduction of measures such as anti-dumping and anti-subsidy measures if it is to uphold its commitment to open markets. Additionally, the EU should use dispute settlement procedures as necessary, including the mediation mechanism agreed in recent FTAs to tackle non-tariff barriers quickly.

In the absence of new international rules or a breakdown in international trade relations, the EU must be prepared to use existing trade defence or dispute settlement tools and create new tools where necessary to protect European businesses.

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<sup>30</sup> European Commission (2020), *Europe's moment: Repair and Prepare for the Next Generation*.

<sup>31</sup> OECD (2014), *The digital economy, new business models and key features*.

## Recommendations

- The '**Think Small First**' principle must become embedded in EU Trade and Investment Policy to support SMEs
- Geographical **diversification and solidification of supply chains** needs to be a priority for the Commission as we approach the end of the Brexit Transition Period and an ever-rising tide of international protectionism. This can be achieved through the application of cost assessments of entering new markets and the inclusion of SME provisions in all trade negotiations
- Urgency in **reforming the multilateral trade framework** – guided by the UN SDGs – to enable a rules-based, non-discriminatory and equitable trading system that preserves the interests of all trading partners, not least the poorest and most vulnerable economies
- Implementation of an **Action Plan for Trade** to address the FTA usage challenge. Through this, the Commission and each Member State would commit voluntarily and in accordance with their respective national competence, to implement concrete actions and activities in their nation states, through politically binding action plans that accompany the ratification of major EU trade agreements
- Harmonising standards, reducing the complexity of administrative and customs procedures, and investing in skills and organisational capital will **make it easier, quicker and less expensive for SMEs to trade internationally**, integrating global value chains
- Utilising the **UN SDGs** to guide the sustainable development of EU Trade policy and thereby facilitate greener, fairer and more responsible economies both in the EU27 and its trading partner countries
- Provision of resources for **business on human rights impacts in the supply chain**. This awareness raising should be paired with collaboration at Member State level to ensure that National Action Plans on Business and Human Rights educate the business community on due diligence and human rights impact assessments
- Driving the completion and enforcement of the **EU Single Market in digital services and e-commerce** which would greatly facilitate the ease of doing business online, particularly for SMEs throughout the Covid-19 pandemic
- A **commitment to openness** must remain at the centre of the EU's Trade and Investment policy to promote future growth, prosperity and competitiveness.

## Concluding Remarks

Trade will be a key factor in the EU's economic recovery. As a basis, we will need a fully functioning European single market, where added value is created by policy at European level, with a robust infrastructure to ensure no member state is left behind and SMEs receive proper financing support. This will lay the basis internally, but our businesses equally depend on the ability to maintain open markets, underpinned by fair trade and the predictability of global trade rules. As we also have the world's most competitive SMEs – and to boost their recovery we need to keep supply chains open and running in these extraordinary times.

The EU has provided Ireland with a platform for greater opportunities to trade, attract investment, foster a skilled and flexible workforce and develop a fair and competitive tax regime. Ireland's ability to benefit from the huge negotiating strength and resources of the EU's trade and investment infrastructure continues to lead to ever greater export opportunities across the globe, providing new markets to counter the uncertainties prevailing in some of our traditional markets.

Trade policy is a geopolitical instrument that the EU can use to leverage its influence in the global economy. The future recovery of the European and global economy depends on how well the EU uses this unique, non-budgetary instrument. The Commission must seek to have greater cooperation in areas, such as trade and investment, where there is a clear collective benefit and where the EU can deliver added value to Member States. This includes completing the single market, digitalisation, and global trade. It also means championing innovation across all sectors of the economy, and ensuring that competitiveness is harnessed, not hampered through EU policy.