

## 4. The European Union's Common Commercial Policy in times of turmoil



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### Abstract

**Purpose:** The general aim of the chapter is to identify the main challenges for the EU's Common Commercial Policy in the context of post-pandemic and war's experiences as well as future trade-related challenges.

**Design/methodology/approach:** The chapter is based on literature/EU official documents, studies, and statistical analysis of the EU's merchandise trade. It has been structured into two general sections. The first one presents recent trends in the EU's external merchandise trade caused by the pandemic's economic repercussions. This is followed by a short analysis of trade disruptions from the Russian-Ukrainian war and trade reactions to the new situation from the EU.

**Findings:** The European Union faces challenges of a fundamental political and economic nature and the Common Commercial Policy is among the main policies defining the EU's role in the dynamically changing global environment. The COVID-19 pandemic has brought dramatic instabilities to EU economy and trade and the new strategy of the Common Commercial Policy addressed some of the challenges of the evolving global trading system, revealed by the pandemic-related turbulences. Moreover, the Russia–Ukraine war with its geoeconomic and geopolitical consequences has exposed the CCP to new challenges and necessary adjustments. The latest strategy of the EU's CCP, grounded on open strategic autonomy, emphasises a strong necessity of defending the interests and values of the EU and requires making the trade policy an important engine of green and digital transformation of EU economy. The renewed CCP must also address important trends in the geopolitics of trade and distortions of the global system that have symptomised already before the pandemic and the war.

**Originality and value:** The chapter is addressed to students, scholars, and policymakers by contributing to the ongoing debate on the current changes in the global trading system and reactions to those changes from the EU's Common Commercial Policy.

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**Keywords:** EU, Common Commercial Policy, trade policy, COVID-19, Russia–Ukraine war, open strategic autonomy.

## Introduction

The COVID-19 pandemic and Russia–Ukraine war have brought tremendous and dynamic changes to global trading system. Both processes and its implications have strongly influenced EU economy and forced to finding new strategies and alternatives for previous models of trade and economic co-operation and dependencies. Some of disruptions had short-term and limited effects and responsive policy decisions had to be undertaken immediately, sometime by the week or the month. At the same time those trade disruptions have triggered processes of fundamental nature and—in the consequence—started to redefine previous trade relations and their character.

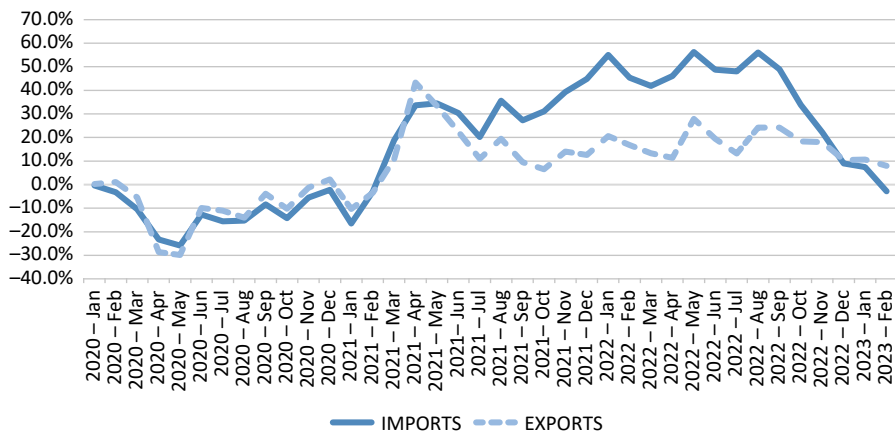
In 2021 the European Commission presented the renewed strategy of the EU’s Common Commercial Policy (CCP) entitled “Trade Policy Review—An Open, Sustainable and Assertive Trade Policy”. In the document the Commission defined main challenges and priorities for the EU in developing trade and economic relations with the outside world in the coming years. While the strategy has been shaped on the basis of first pandemic’s experiences and consequences for international trading system, it was released in February 2021—a year before the Russian aggression on Ukraine—and as such does not include any references to the new geopolitical situation in the nearest neighborhood of the EU. The war, similarly to the COVID-19 pandemic, has tremendous long-term consequences for the EU’s external trade relations as well as the global trading system and as such triggers many questions about the future international trade patterns. The general aim of the chapter is to identify the main challenges for the EU’s Common Commercial Policy in the context of ongoing changes, post-pandemic and war’s experiences as well as future trade-related challenges.

### 4.1. Lessons for the EU’s external trade in the post-pandemic global trading system

The COVID-19 pandemic brought unprecedented repercussions for international trade in the form of trade restrictions, broken global supply chains and the historic fall of global merchandise trade (Mazur, 2021). The first months of the pandemic have brought mostly export restrictions and requisitions of domestic supplies of essential goods (BDI, 2020), that were the response to the unprecedent increase in

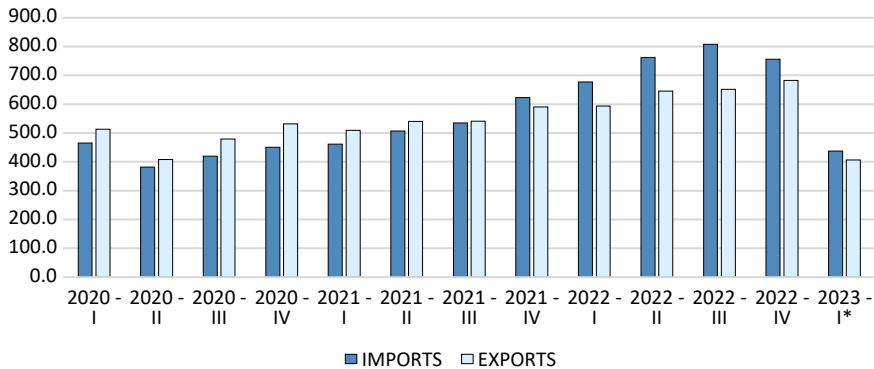
demand for pandemic-related products (personal protective equipment, medical devices, and pharmaceuticals), the shortcomings of ‘just-in-time’ production, and high dependence on a limited number of suppliers. The EU countries were among first traders that launched mentioned trade restrictions that sometimes assumed even the form of direct interventions and requisitions of medical products. Moreover, they were applied not only to extra-EU partners, but also—especially at the beginning of the pandemic—to other EU countries. In consequence the EU market faced trade and supply disruptions from both global and EU suppliers (Pirker, 2020). This situation required decisive steps undertaken by the EC in the first half of 2020 to ‘europeanise’ those actions (export restrictions) as the individual EU countries’ decisions might have eroded the rules of the Common Commercial Policy and EU’s Single Market, and in more horizontal perspective even the further developments of the European project (Hoekman et al., 2020; Mazur 2021).

While the mentioned distortions and uncertainties shaped the situation of global trade mostly in 2020, next months and quarters had brought some stabilisation of supplies and strong increase of trade volumes (Figure 4.1 and 4.2). However, the economic recovery and growth of global merchandise trade in 2021 have not veiled important questions about the pandemic’s long-term aftermath for the global trading system. In this context, general concerns include growing trade protectionism and the accompanying lack of transparency in trade policies of individual traders. Those two elements result in higher instability of trading system embodied in price volatility, retaliatory actions from trade partners, panic buying, hoarding and speculation. The pandemic and accompanying problems with the supply of (mostly)



**Figure 4.1. Extra-EU-27 exports and imports (monthly change (%) to previous year, January 2020–February 2023)**

Source: (Eurostat, 2023).



**Figure 4.2. Extra-EU-27 exports and imports in 2020–2023  
(quarterly, bn EUR)**

\*January–February 2023

Source: (Eurostat, 2023).

medical and protective products, have triggered a discussion on the security of supplying the strategic products and reallocation of production and distribution. In this context many countries, including the EU, have stressed the importance of reducing overdependence on the small number of suppliers by providing multiple suppliers as well as developing domestic production for the price of economies of scale (Mazur, 2021).

The pandemic's experience and mentioned developments in trade relations have required to address new challenges and redefine some of the EU's priorities. While some of those processes had already started over previous years, the pandemic crisis has already accelerated some of them and highlighted to strategic debate. The third decade of the current century has put the EU and its CCP in front of such strategic challenges in global trading system as the surge of protectionism, managed trade and state intervention, state capitalism distortion and the crisis of multilateral trade system (Macyra, 2020; Mazur, 2021). Although the re-newed trade strategy presented in 2021 attempted to address some of those challenges, the redefinition of the EU's position in global trading system and strategic reform of the EU's CPP are questions of the future.

## 4.2. Russia–Ukraine war and its trade implications for the EU

The Russian invasion of Ukraine in February 2022 has initiated significant geopolitical and economic turmoil in the nearest neighborhood of the EU. The war has brought dramatic consequences for the EU's relations with one of the biggest trade

partners and destabilised trade in many sectors crucial to the European and global economy. The conflict has affected not only bilateral EU–Russia trade through economic sanctions imposed by the EU over the past year, but also triggered a strategic shift in the EU’s external trade relations and dependence on import of energy sources.

From the beginning of the conflict the EU has played an important role in trade and economic retaliation against Russia. The first package of sanctions, including those directly related to trade (prohibitions on exports and imports of selected goods), was adopted already in February 2022 and the EU has so far approved 10 packages of sanctions against Russia (as of March 2023). Although the first sanctions against Russia have been progressively imposed since March 2014, initially after the illegal annexation of Crimea and Sevastopol and the deliberate destabilisation of Ukraine, the EU massively expanded the sanctions after the Russian aggression of 24 February 2022 (EC, 2023a). Since the beginning of the conflict the EU was not only an active advocate on a global stage for imposing sanctions on Russia, but the Union itself has implemented over 5,000 of the 10,971 economic sanctions currently in place (as of March 2023) on that country (Sharma & Zilli, 2023).

The EU’s trade sanctions on Russia include a long list of products prohibited for export to reduce the country’s access to military, industrial and technological items and limit the ability to develop Russian defense and security sector. Those include i.a. dual-use goods to target sensitive sectors in military industrial complex, and limit Russia’s access to crucial advanced technology (Table 4.1). The total estimated value of export restrictions and bans on goods and technologies is estimated at ca. 43.9 billion EUR, that represents almost a half of the EU’s exports before the war (EC, 2023b). The imposed sanctions include also prohibitions of import of products that take a lion’s share in Russian production and export and have provided a significant part of Russian budget incomes from export. Those sanctions are designed to diminish the country’s ability to finance the war. On the import side, almost 60% of pre-war imports are covered by the measures, representing more than 90 billion EUR. Moreover, since 15 March 2022 the European Union, together with G-7 countries and other like-minded partners, has stopped applying to Russia a most-favored nations clause within the WTO framework, that deprives Russia of fundamental advantages from WTO membership (EC, 2023b).

The imposed sanctions and developments of global trading system resulting from the conflict (price volatility, uncertainty and instability in selected sectors, political pressure to stop economic co-operation with Russia) have significantly influenced EU–Russia trade over the last year. Implemented restrictions have resulted in falling bilateral merchandise trade volume. Rereferring to import from Russia, skyrocketing prices of energy sources during first weeks and months of

**Table 4.1. Products sanctioned in EU-Russia trade (as of April 2023)**

Prohibitions on EXPORTS of	Prohibition on IMPORTS of
<ul style="list-style-type: none"> <li>• quantum computing, advanced semiconductors, sensitive machinery, transportation and chemicals</li> <li>• goods for use in the oil industry</li> <li>• maritime navigation goods</li> <li>• luxury goods</li> <li>• coal including coking coal, specific electronic components (found in Russian weapons), technical items used in the aviation sector</li> <li>• drone engines, camouflage gear, additional chemical/biological equipment, riot control agents</li> <li>• toy/hobby drones, complex generator devices, laptop computers and computing components, printed circuits, radio navigational systems, radio remote control apparatus, aircraft engines and parts of engines, cameras and lenses</li> <li>• heavy trucks, semi-trailers, and special vehicles such as snowmobiles</li> <li>• electric generators, binoculars, radars, compass</li> <li>• construction goods such as bridges, structures for buildings tower-like, fork-lifts trucks, cranes, etc.</li> <li>• goods that are critical for the functioning and enhancement of Russian industrial capacity (electronics, machine parts, pumps, machinery for working metals, etc.)</li> <li>• complete industrial plants</li> <li>• goods used in the aviation industry (turbojets)</li> </ul>	<ul style="list-style-type: none"> <li>• coal</li> <li>• iron and steel</li> <li>• cement, rubber products, wood, spirits, liquor, high-end seafood</li> <li>• seaborne crude oil</li> <li>• gold</li> <li>• finished and semi-finished steel products (subject to a transition period for some semi-finished), machinery and appliances, plastics, vehicles, textiles, footwear, leather, ceramics, certain chemical products, and non-gold jewellery</li> <li>• bitumen and related materials like asphalt</li> <li>• synthetic rubber and carbon blacks</li> </ul>

Source: based on (EC, 2023a).

the conflict have even increased the value of EU imports (Table 4.2). That situation had its roots in several strategic trade dependencies between the EU and Russia. The effects of imposed import sanctions and stabilising global fuel prices have been visible since the 4th quarter of 2022, when the total value of EU imports from Russia fell by one-third. Even more significant drop of imports was recorded in the first months of 2023, when imports diminished by two-thirds, including dramatic fall for mineral fuels (−67.2%).

Similar downfall has been also recorded in EU exports to Russia, although consequences of sanctions revealed already in first months of the war. After a year from the Russian invasion, EU exports to Russia fell by a half, and in sections such as manufactured goods or machinery and transport equipment—that are critical for future abilities of Russia’s industrial sector—the drop was even at ca. three-quarter to the previous year (Table 4.2).

**Table 4.2. EU-Russian merchandise trade by SITC sections  
(quarterly change (%) to previous year)**

<b>IMPORTS</b>					
	<b>2022–I (%)</b>	<b>2022–II (%)</b>	<b>2022–III (%)</b>	<b>2022–IV (%)</b>	<b>2023 (01/02) (%)</b>
0 Food and live animals	58.1	16.5	–0.3	–3.2	–5.8
1 Beverages and tobacco	38.9	–36.5	–60.6	–86.2	–84.2
2 Crude materials	35.8	–34.7	–47.9	–55.9	–58.0
3 Mineral fuels	132.9	78.8	35.6	–24.7	–67.2
4 Animal and vegetable oils	468.0	177.4	–27.9	–52.2	–78.7
5 Chemicals	112.9	–10.1	–15.0	–33.4	–77.8
6 Manufactured goods	56.2	7.5	–44.8	–54.7	–61.8
7 Machinery and transport equipment	–2.1	–40.3	–31.0	–56.7	–62.0
8 Miscellaneous manufactured articles	11.7	–20.4	–42.7	–55.2	–77.6
<b>TOTAL IMPORTS</b>	<b>108.0</b>	<b>56.5</b>	<b>9.9</b>	<b>–34.6</b>	<b>–66.0</b>
<b>EXPORTS</b>					
	<b>2022–I (%)</b>	<b>2022–II (%)</b>	<b>2022–III (%)</b>	<b>2022–IV (%)</b>	<b>2023 (01/02) (%)</b>
0 Food and live animals	2.0	–24.3	1.6	12.8	4.8
1 Beverages and tobacco	–13.2	–41.1	16.6	34.5	47.7
2 Crude materials	8.1	–17.4	–26.9	–21.6	–44.5
3 Mineral fuels	1.4	–66.0	–42.9	–37.4	–86.8
4 Animal and vegetable oils	–11.9	–49.1	4.9	–15.2	–8.5
5 Chemicals	8.2	–15.2	–11.8	–15.4	–22.3
6 Manufactured goods	–3.6	–51.9	–54.8	–56.1	–65.8
7 Machinery and transport equipment	–22.5	–67.5	–71.5	–70.1	–76.3
8 Miscellaneous manufactured articles	–11.5	–51.1	–37.4	–41.5	–40.6
<b>TOTAL EXPORTS</b>	<b>–9.7</b>	<b>–49.4</b>	<b>–45.9</b>	<b>–44.5</b>	<b>–50.4</b>

Source: (Eurostat, 2023).

The political situation and adopted sanctions against Russia influence directly bilateral trade patterns and volumes. Those processes, new and dynamic in their form, must be analysed in the broad context of strategic geopolitical tensions and supply shortages triggered by the Russian invasion. Decisions undertaken by the EU over last months have been foretastes of strategic shifts and new challenges in global trading system that must be addressed by the EU within its trade policy. In this context, the EC underlines the need of strategic economic autonomy and higher diversification in trade co-operation, e.g., by reinvigorating trade negotiations on new FTAs with selected partners (e.g., India). The latest geopolitical situation requires to ask questions about reliable economic and political partners for the EU. Some strategic redefinition of the EU's trade policy was already presented in 2021. Higher economic autonomy and trade diversification were presented as antidotes for trade turbulences caused by the pandemic. Russian aggression on Ukraine in 2022 only reinforced the necessity of those aspects. In the context of geopolitical tensions, it should be expected that the EU takes more assertive position in protecting its interests and values (EC, 2021; Noyan, 2022).

## **Conclusions—towards 'new' Common Commercial Policy**

Presented in 2021 the renewed strategy should be seen as a first step towards a new model of the EU's trade and economic relations with the world. While the strategy, as the previous ones, is an attempt to provide a strategic framework for the CCP for the next five years, it should be read in a broad context of the evolving global trading system. As such, the presented document is more than just a regular revision of the policy. While in many aspects the document might have been disappointing due to a shortage of specific policy suggestions and triggers more further questions than delivers answers, it should be read as a preview of more fundamental changes of the EU's trade policy. In accordance with the title of the strategy, the CCP should be grounded on the "Open Strategic Autonomy". That means the EU will still follow global rules and stick to commitments to open and fair trade, but at the same time it emphasises the EU's ability to make its own choices and use all trade tools that would reflect its strategic interests and values. In this context, the European Commission highlights the necessity of the adoption of a first set of reforms of the WTO (a.o. in the area of sustainable development and distortions of competition due to state intervention) and the need to restore an effectively-functioning WTO dispute settlement. Moreover, the renewed CCP should support green and digital transition as well as trade in services through closer regulatory cooperation with like-minded partners as well as the conclusion of an ambitious and comprehensive WTO agreement on digital trade. The document highlights also strongly that the



EU is ready to act assertively in defending its interests and defines more openly than ever before the threats to its trade, economic, and political interests. This should be achieved a.o. by concluding negotiations and ratifying agreements with key growth regions (Asia Pacific, Latin America) as well as further development of tools and instruments (e.g. anti-coercion instrument) supporting EU business and protecting it from unfair competition (EC, 2021; Keane et al., 2023). An important part of the EU's response to current trends and challenges is also a comprehensive reform of the EU Customs Union, including the creation of a new EU Customs Authority and EU Customs Data Hub, presented by the EC in May 2023 and to be implemented in the coming years (EC, 2023c).

The COVID-19 pandemic and the war in Ukraine have brought dramatic instabilities to EU economy and trade. While the new strategy was published in 2021, it addressed some of the challenges of the evolving global trading system exposed by the pandemic-related turbulences. The Russian invasion and its geoeconomic and geopolitical consequences for obvious reasons could not be included in the analysis and the strategy. However, the global trade ecosystem had already started to change deeply even before the war and the pandemic, and important new trends in the geopolitics of trade and distortions of global system have symptomised already in recent years. Here should also be mentioned distortive practices in China's trade policy together with growing US-China trade and political tensions. While in some aspects the latest trade policy review suggested higher diversification of trade partners and nearshoring (mostly with the Balkans and Middle Eastern and North African countries), the geopoliticisation of trade accelerating world's economic decoupling will reshuffle global trade patterns more decisively (Fabry, 2022). The European Union faces challenges of fundamental political and economic nature and the Common Commercial Policy is among main policies defining the EU's role in dynamically changing global environment.

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