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Trade's turbulent summer – key changes to EU's trade team

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President of the European Commission Ursula von der Leyen has appointed (8/9/2020) Executive Vice-President Valdis Dombrowskis as Commissioner-designate for Trade – one of the most powerful portfolios within the institution. FTI Consulting's trade team - led by Senior Advisor John Clancy - argues that this shows Europe strengthening its trade mandate – especially in the eyes of global partners but the former Latvian prime minister faces a host of challenges if he is to renew EU trade policy.

The bigger they are, the harder they fall

The claim that August is a quiet month in Brussels has not rung true for more than a decade, at least. Insiders recognise that Europe's summer period is often disturbed by crisis either internal or external.

August led to upheaval inside the EU Commission's headquarters itself with the towering EU trade Commissioner. 'Big Phil' Hogan was forced to resign after it emerged that he attended a golf dinner in a hotel when on holiday in his native Ireland, criss-crossing the country in an alleged breach of the Irish government's Covid-19 lockdown rules. Few insiders believe he would have been forced to step-down if he had offered an immediate and unambiguous apology as well as having been clear on his movements from the moment the story hit the Irish headlines. An arrogant insistence that he would not resign ultimately cost him his job.

There are few trade watchers who did not believe that Hogan had merited one of the EU's top jobs after his first successful stint on agriculture during the Juncker Commission. He was largely regarded as a good negotiator having hammered out the thorny issue of agricultural quotas in the EU-Mercosur trade agreement. However, it's also fair to say he had not yet been significantly tested as Europe's trade chief. Indeed, his commitment to the job was in some doubt after his rather shambolic and ultimately failed bid to enter the race for the next WTO chief - just months after having taken office. This cost him politically inside the Commission. He was forced to temporarily hand over trade matters to Vice-President Valdis Dombrowskis while he contemplated his candidacy, a process that frustrated many of his EU colleagues. This episode certainly did not show Hogan to be the deft political strategist and negotiator many had claimed he was. It was a political car crash of his own making.

“Terminus – all change please”

Dombrovskis, the former Latvian prime minister, has served as Executive Vice-President of the Commission for an ‘economy that works for people’ in his latest term in office. Since Phil Hogan’s resignation he has been appointed the acting trade commissioner. Clearly knowledgeable on economic matters from his previous portfolios, he is considered a safe pair of hands and a close ally of President Ursula von der Leyen.

However, you’d be forgiven if you’ve never heard of him. Dombrovskis doesn’t blaze a trail in the press or the public eye and is more a technocrat than a heavy-weight politician. In this respect, he seems an unlikely choice for this high-profile role in the Commission. However, this choice by von der Leyen ticks other boxes which are probably equally important to her right now. The Commission has probably had enough showmanship for this mandate.

The politics of trade

The trade portfolio is a powerful one that has always been a firm favourite of the ‘big’ member states including the UK, (West) Germany, France and pro-trade nations such as Belgium. While Dombrovskis is a Latvian, a relatively small member state for such a coveted prize, von der Leyen can only play with the cards she has been dealt, and he is her natural choice.

It is true that with the rise of China over the last two decades, successive Commission presidents have failed to provide the trade commissioner with a suitable rank required of such a senior role to get the attention that they need, to punch through diplomatic protocols to engage the key decision makers. For example, as an Executive Vice President, Dombrovskis will finally be able to address his counterparts directly in certain key trade meetings in China rather than be forced to bring along a more senior Commissioner to take the floor.

This is a positive outcome given the growing tensions with China but not decisive in von der Leyen’s decision-making process. This move now elevates trade to the president herself and most importantly places trade firmly within Berlin’s sphere of influence. Dombrovskis is the perfect choice to ensure that the trade portfolio stays with an experienced European ‘economic’ conservative politician (European People’s Party, the centre right grouping in the European Parliament) and close to a major EU trading power – namely Germany. This move likely strengthens Germany’s

hold on trade given that the trade department has numerous senior posts held by German nationals including the top job of Director-General as well as the critical role of chief negotiator with the United States.

But this may raise eyebrows in Paris. Von der Leyen has made it a point of her presidency to claim that she is a ‘Brussels’ president and not there for Berlin’s bidding. However, with a review of EU trade policy just launched and France seeking an increased ‘reshoring’ of resources within the EU, it seems that this move keeps trade on its traditional ‘open’ path. It is unclear whether this is an intentional move to reign in Paris’ more protectionist tendencies. However, it will certainly please German industry which largely slammed the Commission’s recent proposal on raw materials led by the French commissioner.

Furthermore, it would be surprising if Dombrovskis doesn’t offer a wide berth to his highly respected and experienced Director-General to steer trade policy day to day – with both ensuring that the president is offered any political limelight the portfolio offers.

Choppy waters

But it certainly won’t be plain sailing. Europe’s trade policy has been in stormy waters for some time and, of course, never more so than now as Europe looks to implement its Covid-19 economic recovery plan as well concluding the Brexit negotiations.

The last decade has seen the rise of China as an increasing challenge for Europe whether bilaterally or at the WTO. The EU-China investment talks, launched in January 2014, remain a priority for the EU. Yet there is no real evidence of the potential for a breakthrough other than the occasional dose of European political optimism, including Dombrovskis himself in a press conference following his nomination.

Efforts to contain China’s economic influence with the EU and the US joining forces in a transatlantic trade deal (Trans-Atlantic Trade and Investment Partnership - TTIP) were blown out of the water by civil society for a whole host of reasons. Then relations between Brussels and Washington soured completely under the Trump administration. President Trump turned a complex, sometimes difficult but traditionally amicable relationship upside down. Whilst there has been a positive step due to a recent mini-deal on several goods, no-one should get their hopes up that this marks a sea-change in the relationship. Then there’s the very future of the WTO itself which enshrines the rules-based,

multilateral trading system so sacrosanct to EU trade policy but abandoned by the Trump administration.

Let's not forget the EU-Mercosur trade deal which has all but been put on hold after Berlin recently raised concerns over environmental fears including deforestation in the Latin American region. Even if the EU offers incentive ways of attaching tougher environmental rules to the deal, there's every chance these will not meet the standards demanded by European green lobbyists.

But Berlin's public intervention is a sign of one of the greatest challenges facing the new trade commissioner – namely trying to keep member states aligned. Dombrovskis will need to avoid the EU's common external trade policy falling foul of short-sighted political expediency by Member States; especially the larger ones. In this respect, the new authority bestowed on the role through the higher rank of Dombrovskis can only be a good move. However, he'll still need to show that he can throw some punches just like 'Big Phil' Hogan if he's to win the respect of national leaders and external trade powers.

Conclusion

Europe's trade policy has not dramatically changed for more than a decade. And it seems highly unlikely to change with this latest political appointment.

For at least twenty years, EU trade policy has focused on trade deals of one form or another. With the huge difficulty to ratify large deals, it seems most likely that efforts may shift to small, mini-deals whenever possible to lessen the intense pressure of civil society scrutiny.

In addition, with the Covid-19 recovery plan in part dependent on a revitalised trade policy, the key challenge for the future trade commissioner is to show imagination on how to reinvent EU trade policy wherever it makes sense to do so. The question is whether Valdis Dombrovskis has the vision to make it happen.

FTI Consulting's trade team - part of its Brussels Legal Services offering – can help your firm navigate the politics of complex European and global trade issues including trade defence cases. The team made up of a former EU trade spokesperson as well as former trade and competition lawyers. The team advises a range of clients across a number of sectors as well as global brand leader, helping to influence positive outcomes for their businesses in Europe and around the world.

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