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Economic Insight

Free trade agreements – please no sustainability overload

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The EU urgently needs new free trade agreements, but is overburdening the negotiations with sustainability demands

Donald Trump has raised tariffs more sharply than the US House of Representatives did in 1930. The counter-tariffs imposed by other countries at that time caused world trade to collapse and contributed significantly to the depression of the 1930s. To prevent world trade from collapsing this time, other countries must trade more with each other. If the US erects trade barriers, others must dismantle them. Many new free trade agreements are needed to cushion the disastrous impact of Trump's tariffs. But the EU will only make progress here if it shows more flexibility.

Not even the agreement with Canada has been ratified

So far, the EU's record in this area has been disappointing. Although Canada is very similar to most EU countries in political terms, the free trade agreement with Canada has not yet been ratified by all EU countries and is therefore only provisionally in force. The agreement with the Mercosur countries Argentina, Brazil, Paraguay, and Uruguay has not even been signed by the EU Council; France and other EU countries have not yet given up their resistance. The desired agreements with the populous, rapidly growing countries India and Indonesia are still far from being negotiated.

EU overloads negotiations ...

For a long time, the EU's difficulties in concluding new free trade agreements were mainly due to France and other EU countries that want to protect their farmers from foreign competition at the expense of internationally competitive manufacturing. For several years now, the EU has also been overloading negotiations on new free trade agreements with demands for sustainability.

...with demands for sustainability

These demands mostly concern environmental and climate protection as well as workers' rights. The EU often imposes its sustainability standards unilaterally without negotiation – for example through the Supply Chain Act or import bans on agricultural products grown on deforested jungles.

From a Western perspective, such sustainability standards are of course desirable. But India and Indonesia are poor countries whose citizens value material wellbeing today more than the long-term advantages of greater sustainability. Such countries often perceive demands for sustainability as external interference, even neo-colonialism. As a result, the EU is making little progress in its negotiations on free trade agreements.

Two solutions

If the EU really wants more free trade agreements, there are only two solutions. Either it abandons its sustainability requirements and trusts that countries will become more sustainable on their own as their prosperity increases. Or the EU grants these countries particularly generous market access in return, or compensates them with cash payments for the financial disadvantages initially associated with complying with sustainability targets. But if the EU continues as before, there will be hardly any free trade agreements and little new prospects for our companies in foreign markets.

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