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WORKING DOCUMENT

From:	Presidency
To:	Trade Policy Committee (Steel, textiles and other industrial sectors)
Subject:	TPC (STIS) exercise on the impact of the COVID-19 pandemic in certain industrial sectors - Report to the TPC (Full Members)

Delegations will find attached the final version of the document "TPC (STIS) exercise on the impact of the COVID-19 pandemic in certain industrial sectors. Report to the TPC (Full Members)". This version takes into account pertinent comments/suggestions received from Member States, as requested by the Presidency during the TPC (STIS) meeting held on 14 June.

Since there were no objections and the inputs received are neither controversial, nor change the substance, the Presidency intends to submit this Report to the TPC (Full Members) on Monday, 28 June, in accordance with the mandate given to the TPC (STIS).

The Portuguese Presidency thanks the Commission for the cooperation and Delegations for their contributions that allowed to carry out the exercise on the impact of the COVID-19 pandemic in the fashion, automotive and aluminium industries, and looks forward to further work on assessing the situation in other industrial sectors.

TPC-STIS exercise on the impact of the COVID-19 pandemic in certain industrial sectors

Report to the TPC-Full Members

1. Introduction

1.1. Objective

The Portuguese Presidency in cooperation with the European Commission, in the framework of TPC-STIS, and in accordance with the mandate delivered by the TPC-Full Members early February, has undertaken to gather information on the effects of COVID-19 pandemic on the trade dimensions of the sectors of fashion (textiles, clothing, and footwear), aluminium and automotive.

The pandemic triggered unequal effects on EU industry, due to different factors such as the specificity of each sector, the degree of integration or diversification of global value chains or the supporting measures implemented by Member States. Some sectors have faced or are facing severe difficulties (production suspension, supply chains disruption, sales reduction, inability to export), whilst others were able to maintain or even increase their production/sales/exports.

The Presidency considered that this exercise would be a preliminary step to further and deeper discussions, within the TPC-STIS or other bodies in the Council addressing trade policy. This would allow the Commission and Member States to identify specific trade topics and to find possible solutions to face new challenges for the EU industries, as a contribution to the broader debate on strengthening the EU's economic resilience and accelerating the green and digital transition.

1.2. Sector selection, data collection and constraints

The fact that only three meetings of the TPC-STIS were scheduled during the Portuguese Presidency (in March, April and June), and the limitations in the collection and treatment of relevant data in a short period of time, inhibited the possibility to focus this exercise on a wider range of industrial sectors as initially intended. As such, the Presidency and Commission agreed to work on the following sectors: fashion (textiles, clothing, and footwear), aluminium and automotive. Future work could be done on other Industrial sectors.

Relevant European associations in these sectors were invited to the TPC-STIS meetings to provide data and share their views, particularly on the current situation and future challenges and opportunities[1]. Moreover, in the beginning of March, the Presidency asked Member States[2] to provide relevant information on the basis of two questionnaires: one directed to their Administrations, and another to their national industry Associations of the targeted sectors[3].

Even though the broad support to this exercise that has been shown by a large majority of Member States, only 14 Member States replied to the first questionnaire and a more limited number of national industry Associations contributed to the second questionnaire. Moreover, some of the responses received did not respect entirely or at all the questionnaires, were incomplete or inadequate to this purpose.

The review of the mandates of the Council's preparatory bodies promoted by the General Secretariat of the Council, during this semester, resulted in the extinction of the TPC-STIS, and the subsequent integration of its mandate into the Council's Working Party on Trade Questions, as from 1 July. This may be the main reason for the unexpected lack of responses from Member States to the questionnaires, as it seems it continues to be of the interest of all to discuss issues on industrial sectors.

In what regards to the reduced participation of national industry Associations, several difficulties were in the meantime signalled to the Presidency, namely lack of resources, unavailability of the Associations and its members, or the absence of a representative sector in some Member States.

Notwithstanding the above, several common elements were found in the responses obtained, that together with the inputs from the European Associations and from the Commission show a pattern that may indeed reflect the impact of the COVID-19 pandemic in the targeted industrial sectors across the Union, thus allowing to elaborate the present report. However, this has to be seen in relative terms, as the situation concerning other Industrial sectors could have been different.

2. Effects of the COVID-19 pandemic on selected industrial sectors

2.1. Fashion Industry

2.1.1. A brief overview of the EU Fashion Industry

For the purpose of this exercise Fashion Industry refers to Textiles/Clothing and Footwear/Leather industry in EU.

1 *EURATEX - European Apparel and Textile Confederation* and *CEC - European Footwear Confederation, represented* the fashion industry and participated in TPC-STIS of 17th March.
ACEA - European Automobile Manufacturers' Association and *CLEPA - European Association of Automotive Suppliers*, represented the automotive industry and participated in TPC-STIS of 22nd April.
European Aluminium - European Association of Aluminium Industries, represented the whole aluminium chain and participated in TPC-STIS of 14th June.

2 Initially until the 16th of April, this deadline was then extended until the 30th of April, by request of some Member States.

3 Under document WK 03108/2021, delivered to the TPC-STIS community in the Delegates Portal.

EU textile and clothing sector employs in the EU 1.5 million people (in 160 000 companies – predominantly SME's - about 70 % of them are clothing companies, 30 % are textile companies, while man-made fibre companies account for less than one percent.) representing 4,7% of industrial manpower. The EU is the world's second biggest exporter of textiles and clothing.

It is a globalised Industry with complex supply chains. EU competitiveness is based on quality and innovation.

EU textile and clothing sector has a trade deficit, mainly due to significant imports in clothing (from Asia). Exports of higher value added textile products (notably technical textiles) are increasing.

EU textile and clothing markets are estimated to amount approximately €162 bn and contribute to around 1% to GDP.

Main producers are Italy (25% of total EU employment in textile and clothing), Poland (12%), Romania (12%), Portugal (11%), Germany (10%) and Spain (8%).

Footwear and leather sector employ 412 297 direct employees, out of which 272 000 are employed in footwear sector (19 700 companies - € 26 982 million turnover).

The European footwear industry consists of a large number of small enterprises, employing on average 10-15 employees, and with an average turnover of just over EUR 1 million.

The footwear and leather manufacturing sectors are characterised by high geographic concentration. Nine regions with the highest employment represent 50% of total EU employment in this sector: Italy (Toscana, Veneto, Marche, Lombardia and Campania), Portugal (Norte), Romania (Nord-Vest, Centru) and Spain (Comunidad Valenciana).

2.1.2. Effects of COVID-19

In the scope of this exercise, 19 questionnaire replies were received from 13 Member states.

According to Eurostat, in 2020 textile & clothing, footwear and leather goods retail sales decreased by 24.4%. EU turnover for textiles decreased by 9.3% and the decline in the clothing industry was 17.7%. Based on questionnaire replies different stakeholders show a loss of turnover between 8% - 20%. Certain Member states (RO, LT) even reports a loss of 50% - 70% in sales.

Eurostat data shows export decrease for textile and clothing (-14%), for footwear (-13%) and for articles of leather (-16%). Euratex reported biggest export loss for textiles and clothing to United Kingdom (-27%). CEC reported biggest export loss for footwear to Mexico (-28%).

According to data from Eurostat, EU increased its imports of textiles and clothing during 2020 compared to 2019 (+5%), but this is due to significant increase in imports from China (+47%, due to increase in imports of masks and PPE). EU imports have decreased for footwear (-18%) and for leather articles (-24%).

Main problems reported by different stakeholders are linked to sourcing problems and increasing prices of different raw materials - fibres, yarn, accessories, dye and chemical substances, especially the ones produced in Asia. E.g. Spanish Textile industry reports price increases for Acrylic (65%), Polyester (70%), Polyamide/polypropylene (more than 100%), Cotton (40%), Cotton Bio (more than 100%), Wool (10%), Linen (25%).

Industry also faces increasing transport costs, mainly sea freight. Some stakeholders also reported delays in deliveries, due to increasing and intensifying customs controls and verifications, which bear additional costs (storage and inspections).

The bigger impact is attributed to fashion/retail sector: clothing, footwear and leather goods, where sales have decreased not only due to global value chains disruptions, closures of stores, but also due to decreased global demand and consumption, which is not forecasted to pick up immediately. Some companies, which managed to shift their production to manufacture of masks, medical gowns during the peak of pandemic or increased their online presence, have managed to lessen their financial losses.

Regarding governmental support during COVID-19 outbreak, stakeholders report general employment support measures, adopted by Member States and only 3 stakeholders (IT, DK and DE industry associations) reported specific support measures linked to exports.

COVID-19 crisis corresponded with Brexit and UK's departure from the Single Market on 1 January 2021 and many stakeholders reported problems when exporting to UK.

EU textiles, clothing, footwear and leather industry is expecting to slowly recover by 2022/2023, at least to reach turnover levels of 2019. However, the industry (notably fashion/retail: clothing, footwear and leather goods) is confident that major transformation of the entire sector is needed: to respond to sustainability and environmental issues, digital acceleration (online sales), change in way of working (smaller collections), supply planning (diversification and more efficient supply chains), corporate restructuring: fewer companies, mergers and acquisitions between companies.

2.2. Automotive

2.2.1. A brief overview of the EU Automotive Industry[4]

With an annual turnover representing 7% of the EU's total GDP, the EU automotive industry is of key importance to the EU economy. In view of its vast global supply chains, the automobile industry has a multiplier effect in the economy. It is important for upstream industries such as steel, chemicals, and textiles, as well as for downstream industries such as information and communication technologies and mobility services.

Automobile manufacturers operate some 226 vehicle assembly and production plants in the European Union. The industry provides direct and indirect jobs to 13.8 million Europeans,

[4] Data sources: ACEA, Eurostat unless otherwise indicated.

representing 6.1% of total EU employment. Of these, some 2.6 million people work in direct manufacturing of motor vehicles, representing 8.5% of EU employment in manufacturing.

The EU is among the world's biggest producers of motor vehicles and the sector represents the largest private investor in research and development (R&D) - EUR 60.9 billion representing 29% of EU total. Investment in R&D is vital for the EU automotive industry to remain competitive on the global market in view of technological developments in the areas of connectivity, autonomous driving, and electrification.

In 2019, 18.5 motor vehicles were produced in the EU representing 20% of global motor vehicle production. The extra-EU motor vehicle exports amounted to EUR 135.9 billion versus extra-EU imports of EUR 62 billion, resulting in a positive trade balance for 2019 of EUR 73.0 billion.

The main EU export destinations are the United States, accounting for 28% of vehicle exports in 2019, followed by China with 16.5% of vehicle exports. The key vehicle importers into the EU are Turkey (23.3%), Japan (18.9%), United States (15.4%) and South Korea (12.7%).

2.2.2. Effects of COVID-19

The EU automotive industry was one of the hardest hit by the COVID-19 pandemic and that was confirmed by all national industry associations who took part in the questionnaire.

During the lock-down months of March, April and May 2020 production in EU car plants came to a complete halt, which resulted in a year-on-year production decrease of some 22%. Consequently, vehicle registration and export figures suffered a downward pressure in 2020:

- Passenger car registrations in the EU fell by 23.7% (2020 vs 2019).
- Commercial vehicle registrations in the EU fell by 18.7% (2020 vs 2019).
- EU exports of passenger cars amounted to €110 billion worth some €21 billion less (Jan – Nov 2020 vs Jan-Nov 2019).
- International trade in commercial vehicles provided the EU with a trade surplus of €6 billion in the first 11 months of 2020, €1.5 billion lower than in 2019.

The jobs of more than 1.1 million Europeans working in automobile manufacturing were directly affected by factory shutdowns during the lockdown period. EU-wide production losses amounted to more than 2.4 million motor vehicles during the peak crisis months of March, April and May 2020 alone; that is 13% of total production in 2019.

The EU automotive industry has globalized its production base. In this context, its value chains are of global nature and have a global impact. A global phenomenon such as the COVID-19 pandemic has inevitably affected the automotive value chains causing mostly temporary negative effects.

In view of this global nature of automotive supply chains, the majority of national associations reported disturbances in these due to imposed COVID-19 restrictions. Production was halted in the spring of 2020 not only due to imposed national restriction but also due to supply disruptions. In addition to problems related to interrupted production activities of supplies, other issues quoted by national associations included price increases for transportation and key inputs (e.g. steel, aluminium, plastic), border control complications and transport delays. All these led to general difficulties in planning and fear of further and bigger bottlenecks.

National associations did not indicate any negative effects of the COVID-19 pandemic on market opportunities resulting from FTAs and other trade arrangements.

According to forecasts, the EU automotive sector is expected to recover in 2021 with an estimated rebound in output of some 15.9% in 2021 and a more moderate growth of 4.8% in 2022.[5] Drivers of demand are expected to be the launch of some new electric vehicle (EV) models, increased use of personal transportation due to safety concerns coupled with increased household cash savings.

Some national associations are more optimistic than others regarding the future of the EU automotive industry. Many recognise the importance and the need to further diversify supply chains, which could also include boosting European production for certain key components. This could minimize the risk of future supply chain bottlenecks and would optimise supply processes.

It is to be noted, that despite the negative effects of the pandemic the growth of the EU EV market in 2020 remained strong. ACEA reported a 117.4% increase in registrations of full electric vehicles and a 262.3% increase in registrations of plug-in-hybrids.

However, the following risks remain as highlighted by some of the participants in the questionnaire:

It is questionable to what extend car demand in major EU export markets such as US, China and Turkey would pick up to ensure robust exports.

Uncertainties in terms of the trade policy of the new US Administration are still present.

The automotive sector is also encountering supply chain constraints - with a shortage of semiconductors and other parts (from seats and seat belts to driver assistant systems) as well as high prices of key inputs such as steel, which could constrain the recovery potential.[6]

Open trade and the importance of trade agreements with EU trading partners were cited by some national associations as prerequisites for the future positive development of the automotive industry. Exploring new supply locations and engaging in new partnerships is seen as vital for the survival of the EU automotive industry.

[5] EUROFER, 2021

[6] ACEA estimates that supply chain constrains may have resulted in a lost production of 300 00 light duty vehicles for the first quarter of 2021.

2.3. Aluminium

2.3.1. A brief overview of the EU Aluminium Industry

The aluminium industry[7] plays a significant role in the EU economy. In 2018, there were 2870 companies (from alumina refining to semi-finished manufacturing and light metals casting), which employed some 215,000 people and had an annual turnover of EUR 61.5 billion, creating added value of EUR 14.6 billion.[8] Characterised by a significant value chain, the aluminium industry is interlinked with other EU industrial sectors such as transport (automotive), construction,9 machinery and equipment and packaging. In addition, aluminium is used in a range of clean energy technologies, which makes it important for the EU green transition.

EU industrial activity in the aluminium sector focuses on semi-finished and finished products.10 The EU trade balance for those products has been steadily deteriorating. Yet, in 2019, around 18% of the total EU aluminium demand in the EU was destined for exports. Major EU export markets include Switzerland (580.000 tons), USA (443.000 tons) India (350.000 tons) and China (290.000 tons[).11]

In 2019, the EU apparent consumption12 of aluminium amounted to 12 million tons (Mt)13, almost half of which was satisfied by imports; recycling also plays an important part in satisfying EU aluminium demand. The EU's main import sources of primary aluminium14 are Norway (EUR 2.800 M), Russia (EUR 2.400 M), the Gulf Cooperation Council countries (EUR 2.100 M) and Iceland (EUR 1.500 M). Together the EFTA countries supply the EU with 20% of its primary aluminium imports.[15]

The EU demand for aluminium is expected to increase in the coming decades, driven mainly by environmental considerations, which the unique properties of aluminium could satisfy.[16] Thus, the demand for aluminium in the sectors of transport, construction and packaging is expected to increase by 55%, 28% and 25% respectively in 2050 compared to 2017.[17]

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7 NACE 24.42 ‘Aluminium production’ and NACE 24.53 ‘Casting of light metals’

8 Eurostat 2020

9 The sectors of transport (automotive) and construction are key aluminium users accounting for 65% of the EU consumption of aluminium.

10 From bars, rods and sheet used in other products to finished articles of aluminium.

11 Eurostat, 2018

12 Apparent consumption equals total supply minus exports of aluminium metal consisting of unwrought aluminium, wrought aluminium products (rolled, extrusions, wire), castings and powders and flakes.

13 This represents a drop from the 2018 peak of 13.1 Mt

14 HS 7601

15 Eurostat, 2018

16 Aluminium’s favourable strength to weight ratio has helped manufacturers increase fuel efficiency to meet fuel economy standards. Other major applications for aluminium include building and construction (doors, windows, siding), electrical engineering (transmission lines, electronics), and packaging (cans, foil). OECD Fact Sheet on Aluminium, 2015

17 European Aluminium Association

2.3.2. Overcapacity in the global aluminium market

Globally, the aluminium industry suffers from overcapacity, especially in the segments of primary aluminium and semi-fabricated products.[18] Most of this overcapacity is concentrated in China, where government interventions through state-owned enterprises appears widespread in key parts of the aluminium value chain. This is the case of aluminium smelting for which support takes primarily the form of energy subsidies and concessional finance. According to a 2021 OECD report "Measuring distortions in international markets: Below-market finance"[19] China subsidized between 4% and 7% of the annual revenue of its domestic aluminium producers over the past ten years. In comparison, aluminium firms in other countries have on average enjoyed 0.7% of their annual revenue covered by state subsidies.

China's overcapacities in primary aluminium and semi-fabricated products have led to increased downward pressure on aluminium prices worldwide and across the value chain.

The 2019 OECD report "Measuring distortions in international markets: The aluminium value chain,"[20] confirms that Chinese overcapacity has serious effects on downstream aluminium products, including price depression, suppression and lost sales for companies in markets worldwide.

2.3.3. Effects of COVID-19[21]

In 2020, despite the strong impacts of the COVID-19 crisis, primary aluminium production in Europe (EU27+EFTA) remained relatively stable (-1.0% y-o-y change). This is partially due to the high cost of temporary closures of smelters.

However, the COVID-19 pandemic affected greatly the semi-fabricated market segment, where a 9% decrease in shipments was recorded. Due to the COVID-19-induced temporary closures of a number of EU automotive manufacturers, the demand for both flat rolled products and extrusions for the transport (automotive) market dropped by almost 30% in the first months of 2020.

Similarly, the extrusions market was also deeply affected by the downturn of end-use markets (transport/automotive and building/construction) because of the COVID crisis,

[18] China's primary aluminium output accounted for 56% of the world's primary aluminium supply in 2019, IAI 2020. According to European Aluminium, excess of aluminium-smelting capacity in China is estimated roughly to more than 13 Mt in 2019, while excess capacity in primary aluminium is of some 14Mt.

[19] https://www.oecd-ilibrary.org/trade/measuring-distortions-in-international-markets-below-market-finance_a1a5aa8a-en

[20] https://www.oecd-ilibrary.org/trade/measuring-distortions-in-international-markets-the-aluminium-value-chain_c82911ab-en

[21] Source: European Aluminium, https://www.european-aluminium.eu/activity-report-2020-2021/market-overview/

leading to a dramatic 13% decrease in demand. As a result, a decrease of 8% in extrusion shipments was observed.

However, the flat rolled products market for packaging applications remained quite resilient, even during last year's COVID-19 peak, with some markets even seeing growth.

National aluminium associations indicated that the COVID-19 pandemic has disrupted aluminium supply chains with main problems quoted being upward pressure on raw materials and transport prices as well as procurement disruptions due to production shutdowns or production cuts.

Some respondents to the questionnaire indicated that restricted or reduced access to imported intermediate goods and foreign value-added content could cause major disruptions in supply chains and production. In this context, attention was drawn to the high dependence on China for certain inputs and the resulting supply chain disruptions, which were felt even before the COVID-19 pandemic reached Europe. Consequently, the importance of security of supply, especially in the case of critical raw materials was stressed.

The aluminium industry played an important role in supplying value chains that have been essential throughout the crisis: examples include food packaging, critical infrastructure and medical instruments and equipment.

In terms of trade flows, the EU imports of semi-finished products decreased by an estimated 20% for flat rolled products and by an estimated 10% for extrusions in 2020. Of these, China, despite a decrease in import volumes, continued to be the biggest importer into the EU.[22]

In the context of the COVID-19 pandemic, EU imports-dependency of primary aluminium slightly decreased to reach 47% vs almost 50% in the previous years.

Some national associations called for review of existing EU dependencies and supply chains, stressing the need to promote diversification in order to make supply chains more resilient.

National associations are moderately optimistic about the future, hoping the aluminum sector would prove resilient enough to make up for the losses suffered. Uncertainties remain. These range from supply and logistical efficiencies to the success of the EU-wide vaccination campaign and environmental issues related to the promotion of the EU circular economy.

There was a call for financial support and for coordinated EU-wide effort regarding COVID-19 mitigating measures that would ensure comparable level of recovery across the EU.

2.4. Member States supporting policies/measures

The legal framework on competition and State aid or subsidies, within the EU and the WTO, prevented a selective action allocating aid to specific sectors. As such, from the responses

[22] The Chinese share of imports decreased from 27% to 20% for flat rolled products and from 37% to 34% for extrusions between 2019 and 2020. This decrease partially stems from the European Commission's anti-dumping investigation into Chinese imports of semi-fabricated products.

obtained, most Member-States reported not having applied specific support measures to any of the industrial sectors targeted in this exercise. Indeed, these sectors benefited from horizontal measures created to support the economy, regarding better access and financing conditions, exports credits and promotion, taxation, employment and participation in international fairs, among others. This happened within the framework of existing programmes financed by the EU structural funds, as also under national support programmes created as a response to economic impact to the COVID-19 pandemic.

Within the scope of this exercise, and according with information collected in this exercise, some examples of support measures adopted by Member-States, only related to trade, are listed below:

- **CZECH REPUBLIC: Czech guarantee scheme** (managed by export credit agency EGAP) for large companies (>250 employees) with export activities affected by COVID-19 outbreak whose exports represent at least 20% of their yearly sales revenue. The guarantees will support lending to those companies, but will not take the form of export aid contingent on export activities as it is not tied to concrete export contracts.

- **FRANCE: Le Chèque Relance Export** (under *FranceRelance*), for exporting companies, in particular SMEs. These "checks" are usable on all collective operations of the France Export Programme for Q4 2020 and for 2021, as well as on individual services (preparation and/or prospecting) of the France Export Team and private service providers approved in France and abroad.

  Bpifrance Export: Dedicated to SMEs and mid-cap companies that are embarking on exports to enable them to pursue their prospecting actions. The terms and conditions of prospecting insurance have been reinforced. Measures are valid throughout 2021. The 1st payment of the cash advance is increased to 70% and the prospecting period is extended to 4 years. The risks covered are of 65%. The beneficiaries are French companies in all sectors (excluding international trading) with turnover of less than € 500 million with at least a 12-month balance sheet. The risk covered is of 65%.

  Expansion of the Cap France export reinsurance scheme for short-term export credits: The State reinsures, via Bpifrance Assurance Export, private insurers to support the credit insurance market on short-term export receivables (less than 2 years), with 2 levels of cover. This scheme will be valid for a wide range of export destinations, including EU and OECD members. The ceiling for government intervention is doubled to €2 billion.

- **DENMARK:** The Danish government provided subsidies (aid packages) to boost exports in 2021, and through the Export Credit Agency (EKF) also provides a guarantee of 80% of the banks' new loans to export companies.

- **FINLAND: Export trade financing**: The Finish government, through Finnvera, grants new short-term guarantees for the marketable risk countries such as EU countries and certain western industrialised countries. Private credit insurance companies are still the primary source of credit insurance for these countries, and Finnvera's role is to complement the market. Finnvera's guarantee coverage in credit insurance is 90%.

- **GERMANY:** In March 2020 a decision was taken to provide officially supported export credit cover at short term conditions (up to 24 months) for exports within the EU and to certain OECD high income countries. This allowed to address some bottlenecks in the supply of private export insurances. In addition to this the German government, among other things, created a package of five amendments to current export credit policies to allow exporters better access to official financing support. Those amendments are not sector specific and hence can benefit the sectors in question.

- **ITALY: Insurance for trade receivables**: In order to support company exports and guarantee trade receivables insurance for companies, the 'Relaunch' Decree provided a € 2 billion ceiling to allow SACE (Italian Export Credit Agency) to grant a guarantee equal to 90% of the trade receivables insured by insurance companies that have signed up to the programme through a specific agreement. SACE's obligations are counter-guaranteed by the State.

  Temporary Export Manager vouchers: a financial support to temporary hire an export manager;

  Digital Export Academy: an education program that will allow the companies to join online courses in order to strengthen, deepen and develop the companies' skills on digital tools.

  Co-insurance system: 90% of the commitments deriving from SACE's insurance business are taken on by the state, with the remaining 10% being taken on by said company, which allows SACE to support export and internationalization as well as transactions deemed to be of strategic interest for the Italian economy, with reference to the internationalization, employment and activation of production processes.

- **POLAND: KUKE insurance instruments:** Polish exporters can obtain trade receivables insurance from KUKE when selling to the EU and selected OECD countries, despite the increased risk of buyer's default and reduced cover by other insurers. **KUKE GAP EX** is an insurance facility aimed at companies with credit insurance that want to increase their export revenues. In turn, **KUKE GAP EX+** can be used by companies whose existing credit limits have been cancelled or have been refused to cover for new buyers.

- **PORTUGAL: Short-Term Export Credit Scheme** is a COSEC (Portuguese export credit agency) export credit insurance guaranteed by the Portuguese Government to cover individual export transactions of goods and services with national content, for minimum commitment values of € 10,000 and a repayment term of up to 2 years. It covers the EU and certain OECD countries. Exporting firms can buy an insurance product for their outside sales (to cover for client default) which has a state guarantee.

- **ROMANIA: Trade credit insurance:** a €103 million Romanian guarantee scheme was adopted to support the trade credit insurance market.

- **SPAIN: Insurance cover facility of up to €2,000 million** for six months funded by the Internationalisation Risk Reserve Fund. The facility benefits SMEs and other larger unlisted companies in those circumstances in which they engage in international trade, are in the process of internationalisation, experience liquidity problems or lack access to funding as a result of COVID-19. Footwear companies have reported that their banks often presented difficulties to them and on top of this, the 2,000 million euros were fast consumed and the further extension of the amount was far from meeting the demand.

Reinsurance scheme to support the trade credit insurance market. The scheme was designed to supplement private reinsurance, operators having the possibility to choose a coverage of public re-insurance guarantee of up to 60%. Risk and *premia* are then shared pro-rata between the State and the private insurers.

Some Member States also listed measures (whose scope falls beyond trade) designed to specifically respond to needs of the industrial sectors concerned in this exercise.

On the **automotive sector**, for example, in **Germany**, it was introduced a comprehensive support package for the automobile industry to support the transformation of the automotive industry and to support in particular SMEs (which were hit hard by the COVID-19 pandemic), among others 2 billion Euro for R&D and investments with the focus on future mobility and digitalisation. Also, Italy adopted legislation aiming at supporting and relaunching the economy, including measures to support the automotive sector through allocations aimed at encouraging the purchases of low C02 emissions cars. In total, in 2020, through that legislation, resources amounting to 550 million Euro were allocated to strengthen an existing instrument, the ‘’Ecobonus auto’’, and to revive the automotive industry, particularly affected by the crisis. In **Spain**, several actions were takes, such as: the Impulse Plan of the value chain in the automotive industry with a total budget of € 3,750 million, where € 1,535 million will be mobilized from 2020 and another € 2,215 million between 2021 and subsequent years; measures to support the electricity intensive industrial sector (Incl. aluminium sector), creating the Spanish Reserve Fund for Electro-Intensive Guarantees to support the subscription of long-term bilateral energy purchase contracts, in order to provide a stable cost framework for companies with high electricity consumption; the Strategic Plan for Comprehensive Support to the Automotive Sector 2019-2025 that anticipates the measures to support this sector in its transition towards a new model of sustainable, connected and intelligent mobility with an estimated budget impact of € 2,634 million for the 2019-2025 period as a whole; and, the Strategic Project for Economic Recovery and Transformation - Electric Car (not approved yet). Also, in **Greece**, there was a reform of passenger car taxation that is expected to have positive consequences in vehicle market.

On the **textiles and clothing sector**, in **France** certain expectations of the textile industry have been covered by the national support plan *FranceRelance*, with the: i) opening of the “Resilience” call for projects to support investment in the context of essential industry inputs for textile fibres: 3 projects were supported for 5.7M € with a view to structuring a flax industry French textiles, 800K € for technical textiles intended for the health sector to date, and 600K € for technical textiles intended for the transport sector; or ii) the use of the “Territoire d'Industrie” call for projects to support investment, which at this stage has made it possible to support 9 leather projects for an amount of € 4 million and 14 textile and clothing projects for an amount of 6, 1M €. In **Italy**, in order to limit the negative effects deriving from the COVID-19 epidemiological emergency and to support small businesses operating in the textile, fashion and accessories industries, the Ministerial Decree n. 32 of 8 February 2021 was published, with the purpose of implementing the measures provided by art. 38-bis of the Legislative Decree n. 34 of 19 May 2020 (Relaunch Decree). This Decree provides for the disbursement of non-repayable grants in favour of the aforementioned type of companies, up to a maximum of 50% of eligible expenses, within the limit of € 5 million for the year 2020. It also provides for a tax credit grant of 30% of the value of the final warehouse stocks, up to the maximum amount of € 45 million, to businesses operating in the textile, fashion, footwear and leather goods sectors. The implementing decree of said normative measure is in the process of being drafted. Another measure in support of the textile industry, specifically concerning the area of Biella, in Northern Italy, is introduced through the 2021 Budget Law. In detail, art. 1, paragraph 157 attributes to the Biella Industrial Union a contribution of € 5 million for each of the years 2021, 2022 and 2023, to shield the supply chain and to foster the design, research, testing, and development activities of the sector. Paragraph 158 assigns to the Ministry of Economic Development the task of establishing (within 60 days from the date of entry into force of the abovementioned law) the procedures for the disbursement of the contribution, the selection criteria for the eligible programs, activities and expenses, as well as the measures to assess, monitor and check the expenses incurred using such contribution. In **Germany**, besides several horizontal measures that also benefited the fashion sector, the Government also increased its support for international fairs (the so-called German Pavilions) important for German's footwear industry.

Notwithstanding the above, responses from the sectoral Associations consulted in this exercise, generally claimed the Member-States measures were insufficient to help companies overcoming the impact of COVID-19 pandemic. These measures were often perceived as cumbersome, namely by SMEs.

3. The Commission's perspective: An open, sustainable and assertive trade policy

The COVID -19 crisis showed that in order for EU business to recover and continue growing, it needs an open, sustainable and assertive trade policy and this is why the Commission adopted on 18 February a Communication, which outlines its new trade strategy.

An overarching concept guiding the strategy is the model of “open strategic autonomy”: enhancing the EU’s capacity to chart its own course and weigh in on the global stage. It is based on the conviction that we can best increase our strategic autonomy by being open to the world – as both our economic and our geopolitical strengths are built on openness and engagement with others. A key element of this approach is building alliances to drive global change, in particular to a more sustainable and fair globalisation. This however does not exclude being more assertive in defending our own interests where needed, including through developing new, autonomous tools.

The Trade Policy Review Communication on an Open, Sustainable and Assertive trade policy identified three core objectives for EU’s trade and investment policy over the medium term:

- Supporting the recovery and fundamental transformation of the EU economy in line with its green and digital objectives.
- Shaping global rules for a more sustainable and fairer globalisation.
- Increasing the EU's capacity to pursue its interests and enforce its rights, including autonomously where needed

In practice, EU will lead efforts to reform the WTO, including through a close partnership with the US.

The Commission will ensure that trade policy supports the green transition and promotes responsible and sustainable value chains. It will do so, by launching climate and sustainability WTO initiatives; cooperating with partners by using FTAs as platforms to engage on climate, biodiversity, circular economy and sustainable food systems; seeking commitment from G20 countries on climate-neutrality; considering the Paris agreement an essential element in future trade and investment agreements and WTO-compliant Carbon Border Adjustment Mechanism (CBAM); introducing mandatory due diligence including effective action against forced labour; conducting early and comprehensive review of implementation and enforcement of TSD chapters.

The strategy recognises the strategic importance of the digital, services and regulatory spheres for our long-term competitiveness. The Commission will set rules for digital trade through WTO, partner with like-minded countries and notably US. It will work to reinforce EU's regulatory impact and make the best use of the attractiveness of the EU's single market for this purpose.

Important to also strengthen our partnerships with neighbouring, enlargement countries and Africa.

Implementation and enforcement of trade agreements are equally important and the Commission will present proposals for further instruments to complement its toolbox and new online tools to support our companies, particularly SMEs, to make best use of our trade agreements.

On the other hand, the impact of the COVID-19 pandemic has confirmed the priorities of the new industrial strategy: green and digital transitions, competitiveness and resilience. These twin transitions will underpin Europe's future competitiveness. The Commission is identifying investment needs to support the decarbonisation of industry and the creation of lead markets that will allow the EU industry to reach the necessary scale for the deployment of cost-effective technologies.

In May 2021, European Commission published the communication "Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery". This is a targeted update, which focuses on what more needs to be done and what lessons need to be learned. It assesses where our Single Market was tested and stretched and proposes measures to strengthen its resilience and functioning while maintaining its openness. It offers a tailored assessment of the needs of each industrial ecosystem and how all market players can best work together.

Investments and reforms under the Recovery and Resilience Facility (RRF)[23] and Next Generation EU[24] will most notably provide key support for the recovery. Each recovery and resilience plan should allocate at least 37% and 20% of the Recovery and Resilience Facility for investments and reforms that foster respectively the green and digital transitions. The Commission will assess the plans against these targets. Next Generation EU and in particular the RRF provide an unprecedented opportunity for industry and Member States to accelerate the decarbonisation of industries such as aluminium and automotive.

For the textile ecosystem, with its interconnected and globally exposed value chains, we have seen disrupted supply chains. Openness to trade and investment is a strength and source of growth and resilience for the EU, which is a major importer and exporter. Over 50% of the value of clothes sold in the EU are manufactured in third countries. To guarantee safety and a level playing field, it is important to ensure that imports comply with EU legislation. The Commission will support Member States' customs authorities in improving customs control by reinforcing customs risk management. With regard to market surveillance, the European Chemicals Agency has announced that inspectors in Member States will check textile products for compliance with restrictions for hazardous substances[25].

In addition, the Commission will adopt a comprehensive EU Strategy for Sustainable Textiles[26] in 2021. It will drive new business models, strengthen industrial innovation and boost the EU market for sustainable and circular textiles, including the market for textile reuse. The EU strategy for sustainable textiles will set out pathways for the green transformation of the ecosystem, in terms of environmental footprint and circularity.

4. Conclusions

After more than a year of COVID-19 crisis, production, supply, demand and consumption were severely affected across the EU and worldwide. It is clear that the recovery, already in motion, will still take time. Continued support to European industry and companies is needed until consumption returns and supply chains are strengthened, and cooperation at Union's level is essential to avoid excessive dependencies in strategic sectors from third countries.

While several (or most) supply chains have shown remarkable resilience, the current crisis has exposed serious shortcomings in global value chains and excessive dependencies in certain sectors, which required further reflection in terms of policy response. Terms such as "open strategic autonomy", "strategic sectors" and "reshoring", which are becoming a

[23] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, *OJ L 57, 18.2.2021, p. 17–75*

[24] https://op.europa.eu/fr/publication-detail/-/publication/e0956910-a0c9-11ea-9d2d-01aa75ed71a1/language-en/format-PDF/source-193486136

[25] https://echa.europa.eu/-/eu-inspectors-to-check-consumer-products-for-hazardous-substances

[26] As announced in the Circular Economy Action Plan - https://ec.europa.eu/environment/circular-economy/pdf/new_circular_economy_action_plan.pdf

central theme in the discussion, must be analysed, but handled with maximum care. Solutions are not clear and the EU must keep emphasis on trade openness. In no moment, should the EU become more protectionist and decisions about reshoring and strategic sectors must not be taken by policy makers alone, and must avoid picking winners.

The industry representatives strongly support Commission's initiative on the Open Strategic Autonomy, and stress that trade can help diversify supply chains and allow the EU to have better access to critical inputs for our capacity to innovate and scale up production. Also, it is pointed out an urgent need to promote sustainability and digitalisation in production and consumption (including employees re-skilling and up-skilling) to enhance innovation and growth; reduce the regulatory burden and eliminate persisting barriers in the Internal Market; develop a sustainable EU industrial ecosystem supported by an appropriate trade policy response (fostering FTAs negotiations and improving trade relations with strategic partners, updating the EU's trade toolbox, enforcing market access, surveilling market, revising the EU GSP regime, etc.).

In order to help EU business to recover and continue growing the Commission´s Trade Policy Review Communication on an Open, Sustainable and Assertive Trade Policy, identifies objectives for EU's trade and investment policy over the medium term, also bringing further reflection on the EU trade policy and on the challenges that were highlighted by the COVID 19 pandemic. In addition, the Commission's Communication "Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery", focuses on possible solutions to help each industrial ecosystem and how all market players can best work together. It has become obvious that both trade and industrial policies should be articulated to deliver better results in the medium turn.

In the meantime, industry is already benefiting from support measures, even though not sector specific, adopted by Member-States at national level, within the framework of existing programmes financed by the EU structural funds, as also under national support programmes created as a response to economic impact to the COVID-19 pandemic. These measures should be revised as these were often perceived as cumbersome, namely by SMEs. Nevertheless, the Commission will continue to support and uphold the interests of the EU industry both at home and at international level. EU financial support under Recovery and Resilience Facility and Next Generation EU will complement Commission policies promoting open markets, free trade, diversified supply chains and unrestricted access to critical raw materials to ensure sustainable long-term recovery of the EU economy.

Finally, this exercise showed a pattern that may reflect the impact of the COVID-19 pandemic in the targeted industrial sectors across the Union, yet, this has to be seen in relative terms, not only by its reduced scope of analysis, but as the situation concerning other industrial sectors could have been different. As some sectors have faced or are facing severe difficulties, others were able to maintain or even increase their production/sales/exports. Therefore, this exercise should be seen as a preliminary step and contribution to future and deeper discussions on other industrial sectors, within the Council's Working Party on Trade Questions. Without overlapping work carried by other bodies or working groups, this would allow the Member States and the Commission, and involve stakeholders, to identify specific trade topics and to find possible solutions to face new challenges for the EU industries, as a contribution to the broader debate on strengthening the EU's economic resilience and accelerating the green and digital transition.