

French-German non-paper

Strengthening European resilience, addressing global macroeconomic imbalances and market distorting practices

1. **On the basis of a presentation by the President of the Commission, the European Council of the 18th and 19th of June addressed the risks that global macroeconomic imbalances induced by major EU trading partners pose to the EU economy.** As a matter of fact, a massive industrial shock is affecting sectors at the heart of the European industrial model and of systemic relevance [*pharmaceuticals, aerospace, automotive, machine tools, chemicals, etc.*]. This can be seen in increasing and unsustainable trade deficits with key partners, declining market shares for EU industries both globally and in the EU, widespread job losses and industrial footprint destruction, hurting the economic fabric of European societies. This can be attributed to, among other factors, significant non-market practices, including **systemic and persistent market distortions**, caused by practices such as dumping, excessive and across-the-board subsidies and other unfair industrial policy measures, as well as restrictions of currency convertibility, and currency manipulation. These distortions, lead to global structural excess capacity and currency undervaluation. They undermine the level playing field for open and rules-based trade and put European businesses at a disadvantage. Simultaneously, the said distortions lead to an increase in the European Union's dependencies, thus exposing Europeans to geoeconomic risks. This jeopardizes not only the European economy, in particular its position as a key industrial producer and its ability to innovate, but also the EU's position as a sovereign and key international actor.

2. **Faced with this reality, the EU must act urgently by diversifying and *derisking*, strengthening its resilience, competitiveness, and making more systematic and swifter use of its trade defence, industrial policy and economic security toolbox, while exploring ways to strengthen it further.**

These efforts need to go hand in hand with a reinforced and constructive dialogue with our main economic partners, an ambitious and balanced EU trade agenda and the conclusion of further bilateral and regional trade agreements. At the same time, we have to deliver and follow-up on our ambitious roadmap to strengthen our own competitiveness. *Derisking* actions would not amount to decoupling as the EU would adopt a gradual, selective approach to minimize vulnerabilities while fostering trade relationships, signalling our commitment to solving differences through dialogue so as to avoid escalation, while being clear on the EU's readiness to take action to enforce the level playing field and prevent irreversible damage to its industrial and technological footprint. In particular, *derisking* must be pursued in sectors where dependencies are already being weaponized or where there is a risk of such weaponization [*AI, semiconductors, quantum, critical raw materials, lithium-ion battery supply chains, clean energy components, biotech, financial services*]. This has to be mapped and implemented in a broader architecture of European economic security.

3. **So as to effectively defend our endangered industries and jobs, our priority should be to fully leverage the existing trade defence toolbox by deploying trade defence instruments (TDI) more swiftly and more efficiently:**
 - **The Commission should: (i) open more investigations under TDI** (e.g. safeguards while minimizing negative consequences of its *erga omnes* effect), **and (ii) adopt a broader approach in case of sector-wide trade disruptions**, as using TDI to provide protection for narrow categories of goods is now insufficient in the face of more systemic distortions and the global dominance of third countries on the whole value chain of specific sectors. To limit the risk of targeted retaliation against the Member States' defending the case, more ex-officio investigations should be encouraged, where appropriate. Regarding urgent specific cases (such as e.g. in the chemicals, PET, PHEV sectors), appropriate measures should be launched with targeted design options. Also, in order to improve effects in antidumping cases, it should be considered not to apply the "lesser duty rule" if that is in the Union's interest.

- **Immediately and under the current legal framework, the Commission should duly increase the re-allocation of resources to the units in charge of TDI**, in order to better manage the workload and speed up the procedures. Moreover, investigations should also be better prioritized according to their economic significance and jobs' impact. This should be done while preserving the capacity to pursue the agreed agenda at the European Council of 18/19 June 2026 and at the Franco-German Ministerial Council on 17 July 2026.
 - **Finally, targeted revisions of the toolbox regulations should be considered. They could encompass** a targeted revision of the anti-dumping, anti-subsidy and safeguards regulations to enhance the Commission's ability to act [*improve the fight against circumvention practices; consider the product scopes of investigations with more agility...*] and to simplify and accelerate TDI's procedures;
4. **In parallel, and without delaying the full use of the existing set of instruments, the European Commission should propose as soon as possible additional new instruments as a comprehensive framework to capture both our diversification goals and the widest range of economic security issues and all distortions beyond trade-related ones also to allow for a decisive and systemic reaction to cases where third countries seek to undermine the restoration of a level playing field and fair market conditions by political or economic means.**

First, the Commission should propose, as envisaged, a new diversification instrument on how to reduce European dependencies, resolve existing supply chain concentration and prevent emerging concentration risks – taking into account import concentrations from a given country, company or stakeholder nationality, market share at the global level, etc. with Member states being closely involved.

Second, in order to react to cases where third countries seek to undermine the restoration of a level playing field and fair market conditions by political or economic means, leading to severe and systematic distortions, **a new instrument for decisive and systemic reaction** should draw on regulating access to the single market, where this is in the Union's interest. We call on the Commission to calibrate such a tool **based on clear engagement criteria**:

- i. **Straightforward and easy to implement.** It must be ensured that activation of this instrument is credible. Therefore, the instruments' design must allow for swift activation. It should be activated through a procedure based on decision-making rules similar to traditional comitology, on the basis of a Commission's proposal and adopted unless a qualified majority is opposed.
- ii. **Country agnostic**, as the European Union presents a large number of dependencies from multiple origins prone to unilateral measures.
- iii. **Agility and adaptability in terms of scope** to address all relevant types of systemic, persistent or severe distortions. It should also capture all market distortions, from a single production to a whole sector, from subsidies to currency manipulation
- iv. **It should include a very wide range of trade remedies and other tools.** This would enable the Commission to implement tailor-made solutions, while minimizing the risk of edge effects, avoiding solutions that would exclusively translate into obligations of EU companies or unduly increase EU companies' bureaucratic burden.
- v. It should **take into account the Union interest**, in particular the interests of affected companies, users, producers and consumers.

Maintaining a constant dialogue with countries affected by the instrument will be essential and the Union must offer concerned parties the opportunity to submit negotiated proposals with the aim of restoring mutually acceptable conditions of trade, if possible.

5. **As regards some of EU's largest unsustainable trade deficits, EU exporters continue to face significant non-tariff barriers. Meanwhile, the EU market remains widely open to products with record levels of non-compliance to EU regulations, including as regards consumer safety (via massive flows of small parcels).** This should be treated through: i/ increased dialogue with competent authorities on improved EU market access; ii/ **strengthening and prioritizing controls on products** entering the single market (customs union) and circulating in this market (product and consumer safety surveillance); iii/ **drawing consequences of these controls: persisting high levels of non-compliance should translate into access restrictions to the EU market.**
6. **Misalignment and under-evaluation of real exchange rates also support price competitiveness advantage on top of other factors (high investments, high competition, high subsidies), leading to growing imbalances with the EU,** with a rise in import volumes and decline in import prices in the EU since 2022. **An appreciation of undervalued currencies towards a value more in line with fundamentals would help support the rebalancing of trade accounts with the EU in the short and medium term.** While such revaluation in real terms requires structural reforms to their economic model in the long term, a nominal appreciation could help rebalance trade. European policy discussions focused on forging a common understanding of these exchange rate issues and their interaction with global imbalances would be useful. We also encourage European institutions (the Eurogroup, the ECB and the Commission) to engage in a dialogue with competent authorities regarding exchange rate issues and resume such previous practice, without prejudice to Article 219 TFEU.
7. **In its attempt to reduce its dependencies, the European Union could face a risk of retaliation. European unity could be put to the test in the coming months.** In this respect, the EU must be prepared and **factor in international reactions and potential retaliations to its policies, instruments and measures.** Understanding the extent and variety of coercion is essential. Political unity and solidarity will be crucial so as to avoid contradictory statements and reactions and address potential consequences. A useful short-term action would be to establish an inventory of retaliation measures and quantify their impact on EU Member States. Adequate and regular coordination sessions should be organized, at the European Council level if needed.
8. **Furthermore, the EU must strengthen collaboration with partners to promote derisking, diversification and resilience.** The EU should engage with its FTA partners, including on how to avoid circumvention of EU's protective measures or FDI requirements via pass-through third countries, and ensure a level playing field. The EU should also urgently and actively reduce its dependencies on critical raw materials, e.g. via new ambitious and delivering partnerships on raw materials with key partners. In addition, the EU should seek closer cooperation, if applicable, on economic security and derisking issues with like-minded countries.
9. **Ensuring the EU's resilience and competitiveness also requires strengthening the European industrial base** through: expanding production capacities in key strategic sectors, establishing a targeted and proportionate 'European preference' in strategic sectors and technologies -and, in this regard to agree by the end of 2026 an Industrial Accelerator Act, pursuing regulatory simplification, and mobilizing European budgetary and financial instruments more effectively to catalyse public and private investment into key technologies and industries.
Derisking must equally encompass the active protection of European enterprises and critical infrastructures (*R&D capacities, intellectual property rights and sensitive data*). In this regard, the EU framework should also remain conducive to Foreign Direct investments while addressing issues related to economic security, technology transfers and local employment.