

Draft for discussion at
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conference

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Trade in support of
circular economy,
sustainable development,
and green recovery



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Citation will be added in the final version of the paper

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Introduction: Towards global circular economy under the EU leadership, in the pandemic context

"The extraction and processing of natural resources has accelerated over the last two decades, and accounts for more than 90% of our biodiversity loss and water stress and approximately half of our climate change impacts. Over these last 50 years we have not once experienced a prolonged period of stabilization or a decline in global material demand."

– Global Resource Outlook 2019 –

Circular economy is seen as the key global strategy for future resource use, with a view to shift to living within the boundary of world's finite resources. Circularity is also seen as a prerequisite for climate neutrality, with a great bulk of total carbon emissions globally related to how we make and use products and produce food (e.g. 45% of Europe's emissions).

The EU is taking the global lead in promoting the transition to a low-carbon circular economy. This is clear from the ambitious EU Circular Economy Action Plan (CEAP) adopted in March 2020 as part of the EU Green Deal. The plan acknowledges the need to address the block's resource consumption and to reduce environmental pressures driven by consumption, with sustainable product policy, supported by demand side tools such as Green Public Procurement (GPP) criteria, as key elements to achieve this. Value chain and sector-specific actions targeted by the strategy include electronics and ICT, batteries and vehicles, packaging, plastics, textiles, construction and buildings, and food, water and nutrients. As such, the EU CEAP is the most comprehensive and concrete plan for a shift to a circular model currently adopted globally.

Trade and trade policy are a key interface between the EU and the rest of the world when it comes to advancing the circular economy. Production and consumption, materials, goods, services and data are linked through global trade and value chains. Trade policy provides the framework for businesses both to innovate and to export and import new and different circular goods and services in markets across the world.

The future transition to a more circular economy in the EU will inevitably impact trade and, through trade, socio-economic development at a global scale. Furthermore, the success of EU's circular endeavours will depend on how EU's trade partner countries react and respond to the policy measures taken by the EU.

For the circular economy transition to become global – with related benefits to sustainability distributed fairly across the globe – dedicated well-informed global cooperation is necessary. Therefore, for the EU leadership to work, it needs global allies to cooperate with, with EU trade partner countries from developed to developing world playing a key role. Plainly put, there is a limited point to innovate circular economy businesses in the EU and its Member States without a clear plan to which global markets these businesses would be exporting to, or which markets they can rely on for their secondary raw material, technological and service sector related needs. Within a “mapped out” global circular framework businesses are able to innovate with more certainty, leading to the development - and export – of low-carbon, low-material footprint products and technologies. Cooperation on circular economy between trade partner countries helps with the development of a joint vision, mutual policy action and harmonised standards that then enable the EU and its partners to become the first circular economy movers and players, setting the agenda for the rest to follow.

The EU CEAP was published, on schedule and according to the EU Green Deal plan, just before the COVID-19 pandemic. In the recovery aftermath, every sign still points to the direction of the EU keeping its course. Commitments to both the Green Deal and the CEAP have been continuously reconfirmed by the EU Commission and the revised multiannual financial framework (MFF) and the recovery package announced by the European Commission at the end of May include clear commitments to proceeding on the transition to circular economy, calling for *“a massive renovation wave of our buildings and infrastructure and a more circular economy, bringing local jobs ...”*. The recovery plan also reconfirms EU’s general commitment in leading international efforts towards sustainability and, from now onwards, global recovery.

The COVID-19 pandemic caused a major impact on world’s supply chains and related trade patterns with the extent of impacts yet to unfold. As a result of the disruptions in the supply chains and the generic economic downfall global trade has slowed down, with countries most dependent on exporting primary commodities expected to experience the brunt of related economic consequences.

As for the standards for traded resources and products themselves, there are concerns over a widening retreat from environmental regulations in key trading nations. Indeed, some governments have already rolled back environmental regulations during the COVID crisis, and the trend could get worse if environmental requirements are deemed as a costly hindrance – rather than a competitive advantage – amidst the scramble to revive businesses. As for trade in services, restrictions in the movement of people is likely to hamper different service-related trade over an unforeseeable period of time into the future.

The speculated trade related responses to the crises have included closing of borders by countries to exports or imports, either to prevent resources from leaving the country (e.g. food) or to protect their own industries from competitions with imports. Such a response has been seen in the past, for example as a response to the 2008 financial crises and its aftermath, with rather counter-productive outcomes globally (e.g. for global food prices). There are also voices promoting re-localisation of production closer to home, with the shortening of supply chains and increase in self-sufficiency.

There seems, therefore, a clear need for common interests that keep global trade partners together, rather than drive them apart. Circular economy has played such a role in the past and, according to the news from both the bilateral and multilateral (i.e. WTO) trade discussions, circular economy continues to be of key interest to countries globally. Consequently, low-carbon circular economy could – and arguably should – play an important role in the post-pandemic recovery, including building key global supply chains back up in a more sustainable manner.

This policy paper outlines the current trends in global and EU trade flows with focus on sectors identified in the EU CEAP. In this context, it aims to determine the implications of COVID-19 pandemic on global economy and trade, identifying related opportunities or obstacles to circular economy. Building on the above, the paper identifies how EU trade policy can support sustainable action on circular economy as part of the EU and also third country recovery plans.

The EU's circular impact in the global context

"Mainstreaming circular economy objectives in free trade agreements, in other bilateral, regional and multilateral processes and agreements, and in EU external policy funding instruments."

– European Commission Circular Economy Action Plan 2020 –

Changes in global resource flows, with impacts on sustainable development

In general, a shift to circular systems in the EU, as per the implementation of the CEAP, results in changes to primary and secondary resource flows, including the demand for and trade in these resources (e.g. recyclable waste). Further down the line, all these changes can translate into opportunities – or obstacles – for sustainable development in non-EU countries.

The most visible trend in resource flows due to EU circular economy policies so far has been the export of recyclable waste streams outside the EU, with documented negative environmental and social impacts on third countries. The increase in waste imports left several developing countries to deal with large amounts of waste – low-quality plastic waste, in particular – while lacking the proper infrastructure for processing and recycling. This finally caused many importer countries to close their ports for plastic waste shipments, starting with China in 2017 and India, Thailand, Vietnam and Malaysia following the suit. Under the new CEAP, the EU has taken an opposite approach and will focus on preventing waste creation in the first place and taking charge of reverse value chains – which still may be international in nature, but no longer entail shipping out low-quality material streams without follow-up.

As regards possible future trends, a reduction of the demand for resources could reduce the pressure on the environment in third countries with positive implications on environmental sustainability. On the other hand, the export of raw materials still plays a central role in the development pathways of several trade partner countries, therefore these countries are likely to be impacted by a decline in exports, with possible implications for their (economic) development. However, at the moment, the trends in trade of primary versus secondary resources indicate that the latter is not projected to surpass the former any day soon¹ and that policy measures and incentives are needed to

¹ [OECD – Global Material Resources Outlook to 2060](#) (2019)

both reduce total consumption and shift resource use towards secondary sources, including the use of trade policy and related measures.

With the right enabling conditions, circular economy is foreseen to provide new opportunities for economic diversification, value creation and skills development – both in the EU and also globally.

It is generally considered that developing countries could be in a strong position to take advantage of these new economic opportunities, with their large informal sectors already practising circular activities². Developing countries have the opportunity to leapfrog developed countries in digital and materials innovation, to embed sustainable production and consumption at the heart of their future economies. However, these global benefits do not happen without dedicated efforts, with trade and trade policy being a key element in guiding developments (e.g. investment) towards the right direction. The EU recognises this, with dedicated mentioning of creating global partnerships as part of the CEAP, with Africa as one of the key focal areas.

Changes in resource and product standards, with the EU setting the bar higher

On a more technical level, fostering circular economy both in the EU and at the global level requires attention to detail in resource and product definitions and standards. The global movement of resources and products along a global value chain implies that they are subject to definitions, regulations and standards (e.g. on repairability, recycling and re-use) that differ across geographic areas, such as the EU and its trade partner countries. Such often substantial differences represent an obstacle for trade in recyclable and secondary raw material, currently significantly hindering efficient material circularity both within the EU and between the EU and third countries (i.e. functioning as an undeliberate, non-tariff barrier to trade).

The implementation of the EU CEAP foresees a significant improvement of the sustainability standards of products put on the EU market and, as such, it presents an opportunity to standardise – and improve – environmental standards through trade, both within the EU and globally. There is a strong emphasis on Ecodesign, as 80% of a products environmental impact is determined already at the design phase. This is particularly through improving – and harmonising – the definitions, standards and criteria for recyclable waste and secondary raw materials within the EU and encouraging the uptake of such standards at a global scale through trade, with an access to the EU market as a concrete reward for doing so.

² [Chatham House](#) 2019

By 2030 only safe, circular and sustainable products will be allowed onto the European market. For this to be possible, the EU needs to work with trading partners and together become the standard-setter for circular production and consumption across global value chains.

To be the most effective, such a harmonization of definitions and standards requires dialogue and cooperation between the EU and its trade partner countries, including dedicated support to the partner countries for matching the future EU requirements for circularity. This is, in particular, the case with EU's developing country partners, many of whose economies depend heavily on the access of their raw materials and products to the EU market. With more advanced partners, cooperation on standards can help widen the remit of their use, with significant impact on their uptake by third countries as well. The business community in the EU and its trade partner countries is also an important stakeholder group, as they will be applying these new standards in practice.

State of play: Global trade in the COVID-19 aftermath

General trends

In April 2020, immediately after the COVID-19 pandemic was declared, the World Trade Organisation (WTO) forecast two scenarios – an optimistic and a pessimistic scenario – for the fall in global merchandise trade, which respectively predicted global trade would fall by 13% to 32%³ in 2020 compared to 2019. A revised assessment in October 2020 forecasts a 9.2% decline⁴ in global merchandise trade for the year 2020.

The most recent assessment predicts that the fall in global trade due to the COVID-19 pandemic could be less drastic than initially thought. However, the WTO cautions that the projections are still uncertain, especially considering the reality of subsequent waves of COVID-19 infections hitting economies.

Reflecting the uncertainty, the WTO cautioned in August that any predictions of a V-shaped recovery (i.e. a sharp rise back to a previous peak after a sharp decline) appeared to be overly optimistic, and that an L-shaped recovery seemed more plausible⁵ (i.e. a slower rate of recovery after a sharp decline). This prediction is further cemented by the WTO's most recent forecast where global trade is expected to increase by 7.2% in 2021, which is significantly less than what was previously estimated, i.e. 21.3% increase of global trade in 2021.

Goods: Taking a closer look at the sector impacts of COVID-19 from April to June, the WTO finds that in April 2020, automotive products (-70%), travel goods & handbags (-51%), footwear (-42%) and clothing (-42%) were among the hardest hit sectors, with all these sectors yet to fully recover in June. Contrary to the above, telecom equipment (e.g. smart phones), which initially saw a decline in April-May, saw 2% growth in June compared to last year. Similarly, computers performed better in April (+4%) and June (+5%) 2020 than in 2019 as consumers and business upgrade their systems to facilitate working from home.

Services: Regarding the impact of the COVID-19 pandemic on the service sector, global trade in services dropped by 7.6%⁶ in the first quarter of 2020 compared to 2019

³ [WTO – Trade set to plunge as COVID-19 pandemic upends global economy](#) (8 April 2020)

⁴ [WTO – Trade shows signs of rebound from COVID-19, recovery still uncertain](#) (6 October 2020)

⁵ [WTO – Goods barometer confirms steep drop in trade but hints at nascent recovery](#) (19 August 2020)

⁶ [UNCTAD – International trade in services 2020 quarter 1](#) (2020)

and 28.5%⁷ in the second quarter. The most recent UNCTAD statistics reveal in the second quarter of 2020, the travel sector was hit hardest with a decline of 81% compared to 2019. The second largest impact fell on the transport sector which saw a decline of 30% compared to 2019. Good-related services such as manufacturing, maintenance and repair services fell by 22% compared to last year and other services⁸ fell by 7% compared to 2019.

Foreign Direct Investment (FDI): Global foreign direct investment (FDI) flows dropped by 49%⁹ during the first two quarters of 2020 according to the UNCTAD Investment Trends Monitor report. The impact, although severe everywhere, varies by region, i.e. developed countries saw FDI decline by 75% compared to 2019, while FDI to developing economies fell by 16%. Flows to Africa and Latin America decreased more than FDI to Asia, mainly due to resilient investment in China. The UNCTAD World Investment Report projects FDI to decrease further by 5% to 10%¹⁰ in 2021 and recover by 2022.

Sections below provide an overview of the trends in trade data across the EU CEAP sectors following the COVID19. The graphs have been developed based on the monthly trade data from the [UN Comtrade Database](#) capturing a general evolution of the trade flows in key circular economy relevant sectors from January 2019 to August 2020. While the Comtrade Database data is not fully identical with the CEAP sectors it enables a robust enough comparisons to be made. The trade partners selected in each graph had the largest trade flows with the EU for each product category.

Packaging and plastics

Imports to the EU: Figure 1 presents the EU's imports of "Plastics and articles thereof" (HS classification category 39) in traded value (USD), including plastic packaging materials. China and USA are by far the EU's largest trading partners in this product category. Imports from China saw a steep decline in February 2020, most likely due to their strict lockdown. From April onwards China's exports of plastics to the EU have increased to around pre-pandemic levels. Plastic imports from other trading partners have seen less prominent declines but there is a downward trend visible for 2020.

⁷ [UNCTAD STAT – Trade and growth by main service-category, quarterly](#) (2020)

⁸ Construction, insurance and pension services, financial services, telecommunications, computer and information services, other business services, personal, cultural and recreational services, government goods and services, ... from [UNCTAD – International trade in services 2020 quarter 1](#) (2020)

⁹ [UNCTAD – Investment Trends Monitor](#) (October 2020)

¹⁰ [UNCTAD – World Investment Report](#) (2020)

Exports from the EU: Figure 2 presents the EU's exports of plastic waste or "Waste, parings and scrap, of plastics" (category 3915) in traded value (USD). Prior to the pandemic in 2019, exports were already on the decline as Southeast Asian countries closed their ports to the EU's plastic waste. However, July 2020 data reveals an uptick in the EU's plastic waste exports to Turkey, Malaysia and Hong Kong, with a subsequent decline in August. The data shows since May 2019, India has held quite firm in rejecting EU plastic waste imports, as has Hong Kong since November 2019. The EU's exports of plastic waste in net weight (kg) reveals the same trading partners, Turkey, Malaysia, Hong Kong, Indonesia, India, meaning there is little divergence in the value-weight ratio of plastic waste exports to these countries.

In light of the pandemic, the demand for personal protection equipment (PPE) spiked, in particular disposable surgical face masks and gloves, both made primarily of plastics. In this context, the PPE market is expected to grow by 7.8% from 2020 well into 2025¹¹ which will undoubtedly have an impact on the amount of plastic waste produced. For example, the most recognisable blue disposable face masks are made of several layers of polypropylene (PP) microfibers¹². The OECD estimates that the global recycling rates for PP are near zero percent, compared to at least 10% for polyethylene terephthalate (PET) and high-density polyethylene (HDPE)¹³. A recent paper extrapolates the increase in demand for PPE worldwide to reach 129 billion face masks and 65 billion gloves per month. Moreover, the demand for other single-use plastics such as take-out containers and plastic bags for groceries has increased for hygiene and health reasons, as consumption patterns adapt to the pandemic¹⁴.

¹¹ [Personal Protective Equipment Market – Growth, Trends, and Forecasts \(2020-2025\)](#) (2020)

¹² [Czigány, T. & Ronkay, F. – The coronavirus and plastics](#) (2020)

¹³ [OECD – Improving Plastics Management: Trends, policy responses, and the role of international co-operation and trade](#) (2018)

¹⁴ [Prata, J., Silva, A., Walker, T., Duarte, A. & Rocha-Santos, T. – COVID-19 pandemic repercussions on the use and management of plastics](#) (2020)

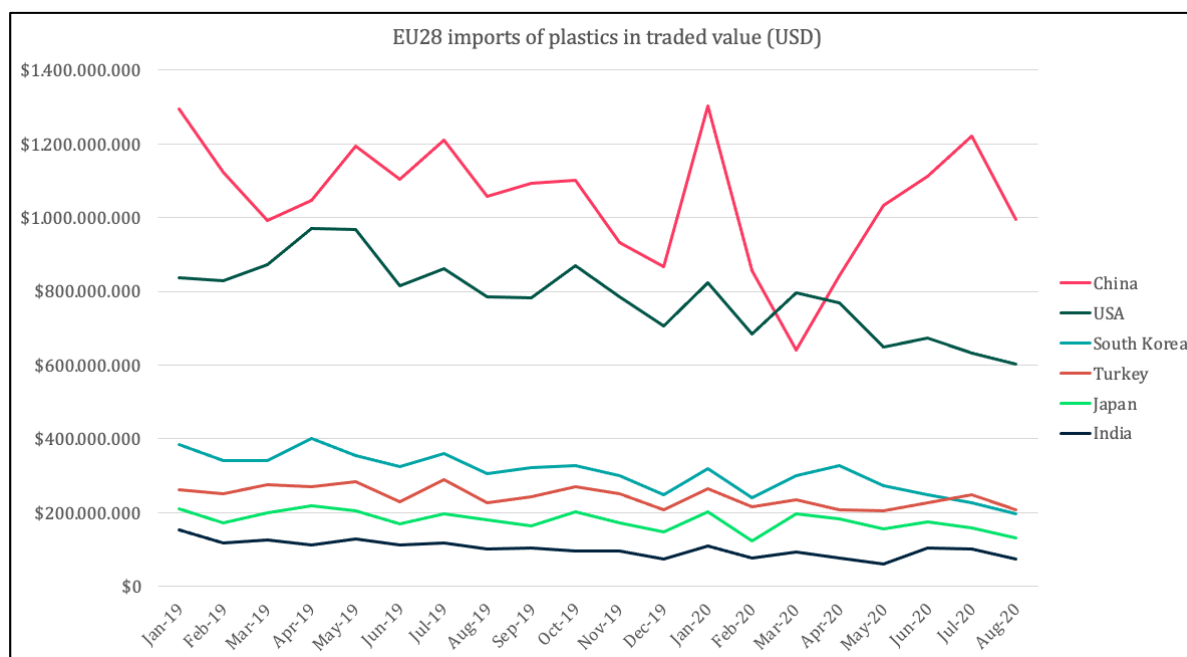


Figure 1, data retrieved from [UN Comtrade Database](#), graph by the authors.

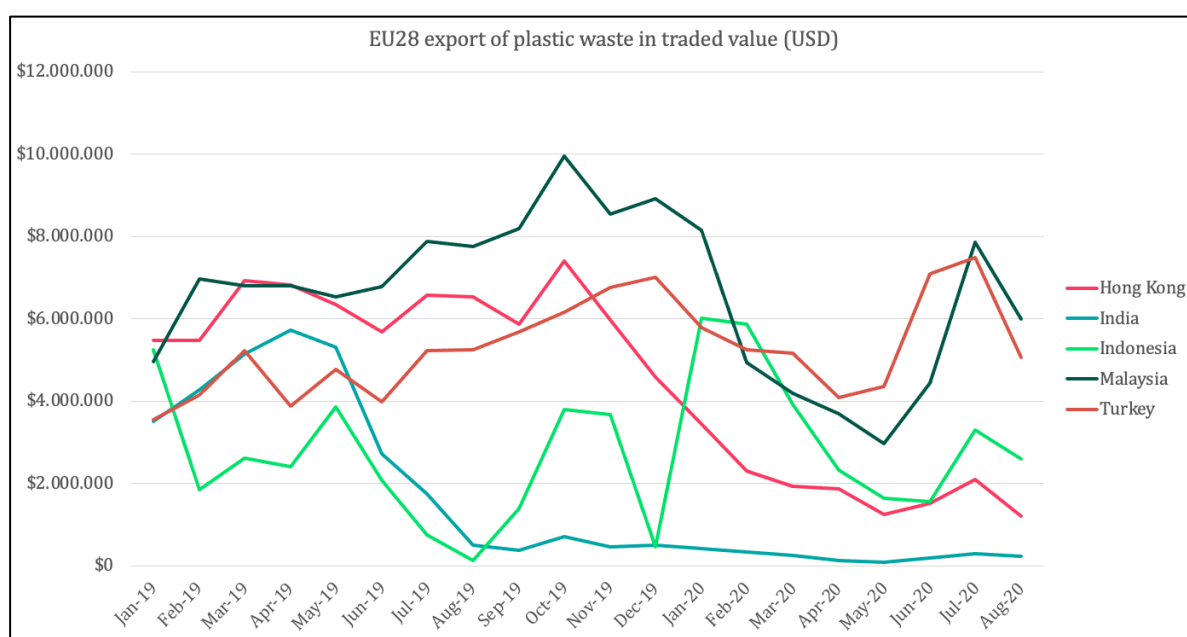


Figure 2, data retrieved from [UN Comtrade Database](#), graph by the authors.

Electronics, ICT & batteries

Imports to the EU: Figure 3 presents the EU's import of electronics (category 85) in traded value (USD). China is by far the EU's largest trading partner in this category. While imports from China declined from November 2019 to February 2020, most likely

attributed to China's pandemic lockdown, Chinese imports have increased every month since then. This import data along with the WTO's trade forecasts demonstrate that the electronics sector has remained quite stable throughout the pandemic.

Exports from the EU: Figure 4 presents the EU's export of electronics or "Electrical machinery and equipment and parts thereof; sound recorders and reproducers; television image and sound recorders and reproducers, parts and accessories of such articles" (category 85) – and batteries – in traded value (USD). Similarly to the trends reported in the WTO report, these exports have been rather stable, except for exports to China and the USA. The export decline to China corresponds to the period in which China went into lockdown, while the decline in exports to the US corresponds with the regional lockdowns in the EU. From May 2020, exports began to increase again, however, another decline is visible in August.

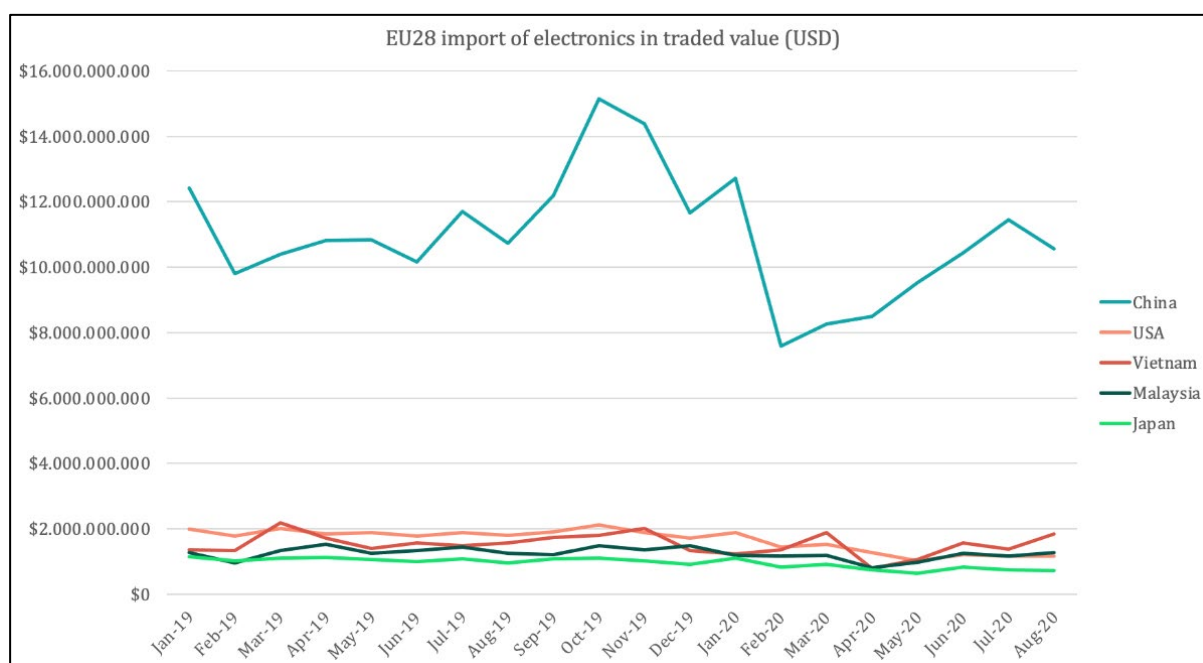


Figure 3, data retrieved from [UN Comtrade Database](#), graph by the authors.

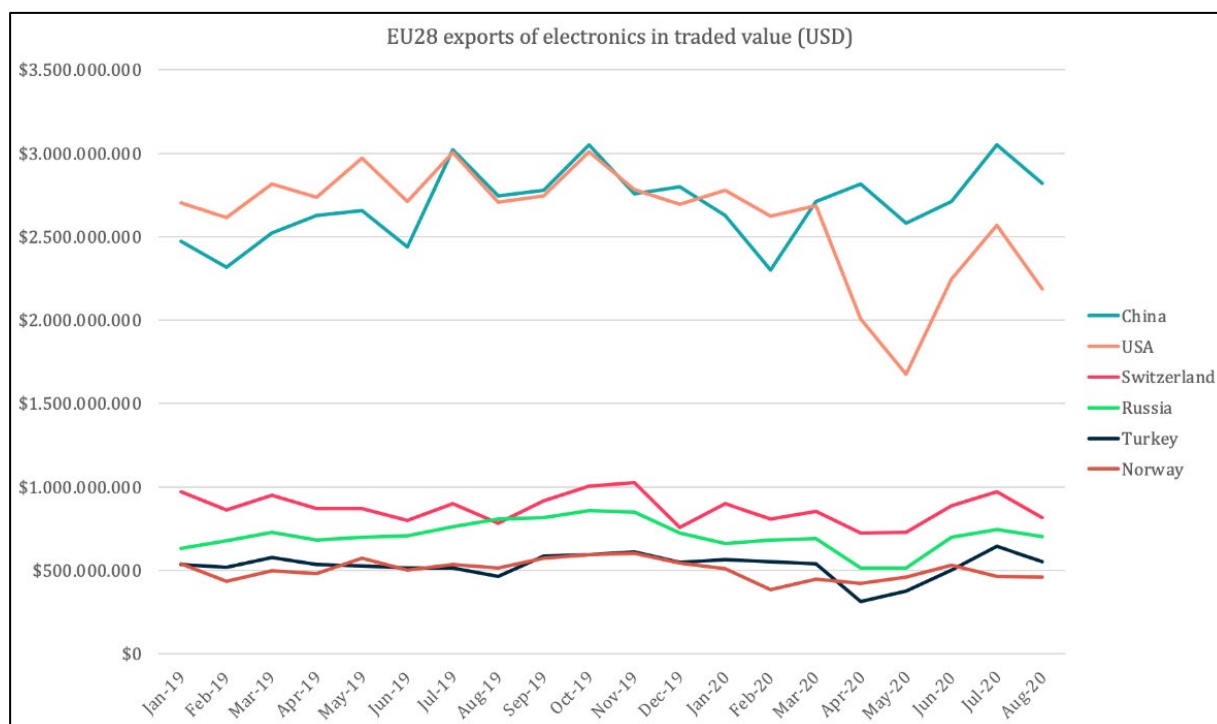


Figure 4, data retrieved from [UN Comtrade Database](#), graph by the authors.

E-waste exports (value): Figure 5 presents the EU's export of electronic waste or "Waste and scrap of primary cells, primary batteries and electric accumulators; spent primary cells, spent primary batteries and spent electric accumulators; electrical parts of machinery or apparatus, not specified or included elsewhere in this chapter" (category 8548) in traded value (USD). These exports have not changed significantly due to the pandemic. The large export increase to China in March 2019, followed by a steep drop, is very significant, however, we do not know the reason behind it.

E-waste exports (weight): Figure 6 presents the EU's export of electronic waste (category 8548) in net weight (kg). The data reveals that the largest trading partners based on weight are different to the largest trading partners based on value: Serbia, Malaysia, India and Pakistan. This points to the discrepancies in traded value of electronic waste. It indicates that high-value electronic waste is exported to higher-income countries with specialised capacity in place to recover value from "high-end" e-waste while low-value electronic waste is exported to lower- to middle-income countries. This general trend confirms that, with or without the pandemic, trade in e-waste as it stands does not deliver equal sustainability benefits or opportunities globally.

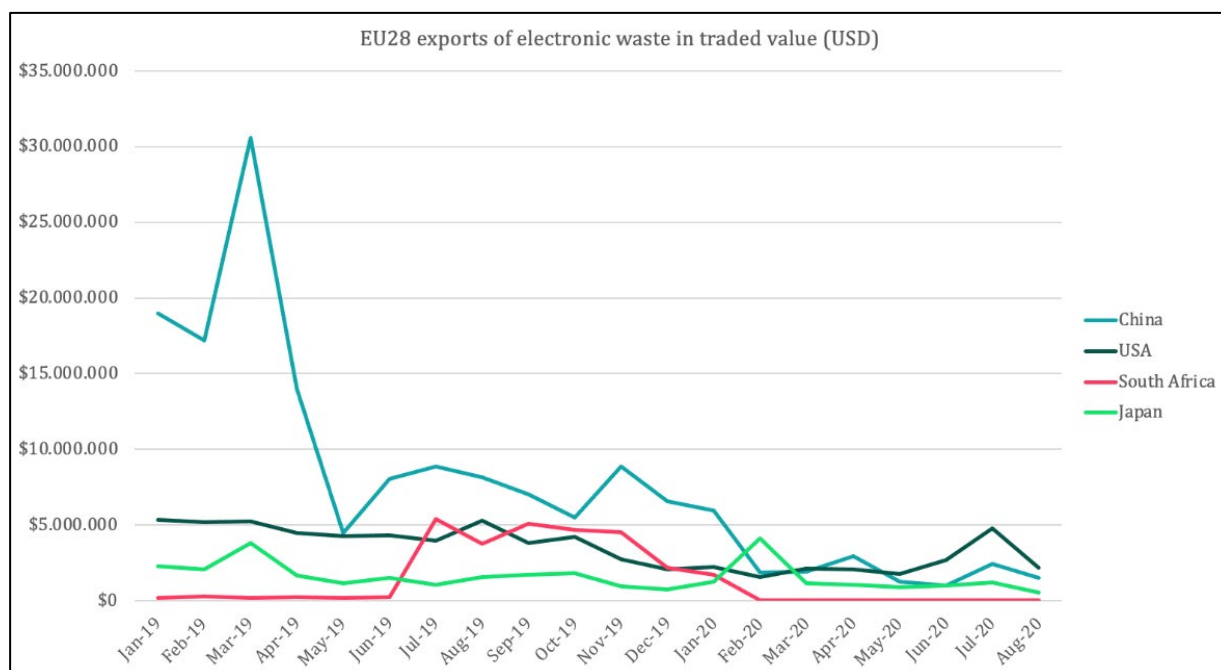


Figure 5, data retrieved from [UN Comtrade Database](#), graph by the authors.

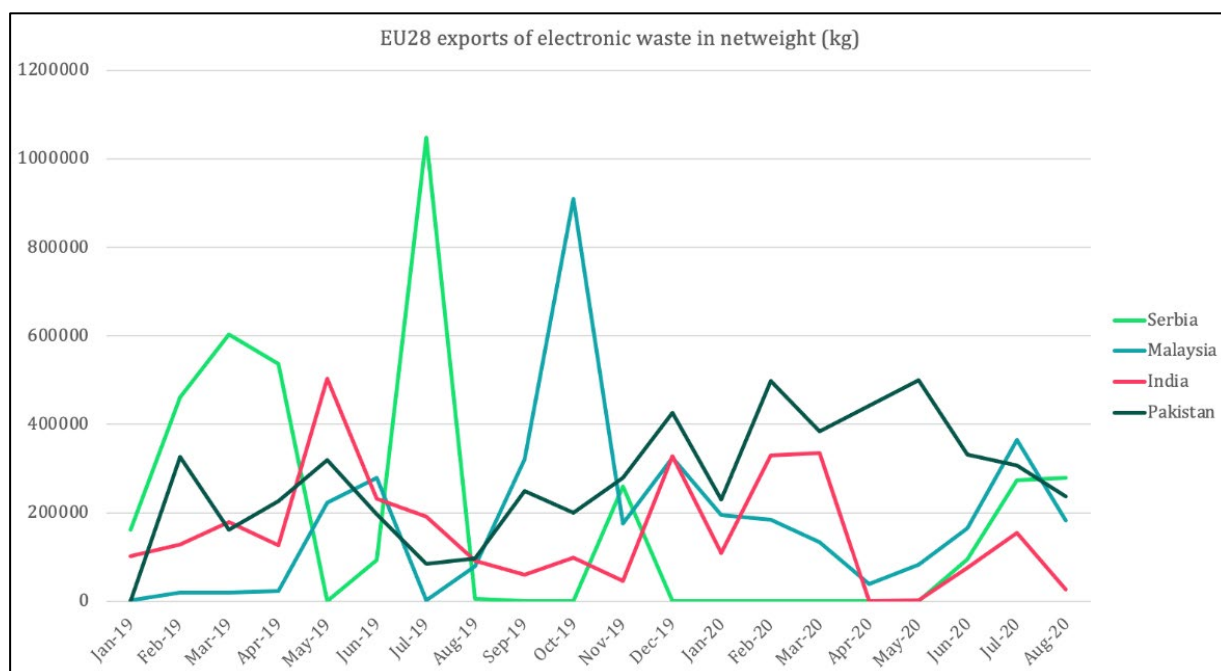


Figure 6, data retrieved from [UN Comtrade Database](#), graph by the authors.

Extractive sectors underpinning e-trade: The main metals and raw materials used to produce electronics and batteries are copper, lithium, silver, gold, palladium, platinum, nickel and aluminium. In general, global mining production has also decreased amidst the COVID-19 pandemic, however less so than other industries. National production

was stopped in South Africa, Peru and Argentina, while operations continued fully or partially in Australia, Brazil, Chile, Democratic Republic of the Congo, Russia, China, India, USA and Canada¹⁵.

Despite higher operating costs and stalled production, the industry has only been moderately affected by the pandemic. For instance, the South African mining industry saw their profitability increase predominantly due to variable commodity prices¹⁶. The economic uncertainty brought on by the pandemic lead investors back to an old-time favourite – gold – leading to its highest price increase yet, while other commodity prices such as for coal, copper, iron ore, nickel, platinum and silver reached new lows in March 2020¹⁷. However, the prices of these commodities have since recovered, which has benefitted the mining industry.

The OECD's Global Material Resources Outlook projects that the growth of newly mined materials will be overtaken by the growth of recycled minerals by 2030, and that the growth in secondary minerals use is expected to exceed further to 2060. However, the usage of secondary non-ferrous materials is expected to remain lower than that of primary non-ferrous materials due to relatively higher labour intensity in the recycling process. The growth of primary and secondary use of steel and iron remain matched in the middle to long term¹⁸. In light of the moderate impact of the pandemic on the mining industry, it is most likely these projections will not be affected much by the pandemic.

Textiles

Imports to the EU: Figure 7 presents the EU's imports of "Apparel and clothing accessories, knitted or crocheted" (category 61) in traded (USD). The Harmonized System code categorizes textiles under Section XI which includes the product categories from 50 to 63. For simplicity, we have selected category 61 as it was one of the categories with the highest traded value. Category 61 thus provides a snapshot of the EU's imports of textiles. All trading partners saw a decline in EU imports of textiles in category 61 from January 2020, onwards. The decline is more pronounced with the EU's largest trading partners in this category: Bangladesh and Turkey. Over the summer, imports from the EU's main trading partners in this textile category have mostly returned to pre-pandemic levels.

¹⁵ [PwC – Mine 2020: resilient and resourceful](#) (2020)

¹⁶ [PwC – SA Mine 2020: essential and resilient](#) (2020)

¹⁷ [Trading Economics – Commodities prices](#) (2020)

¹⁸ [OECD – Global Material Resources Outlook to 2060](#) (2019)

Exports from the EU: Unfortunately no trade data is available to map trade in exports of textiles from the EU, including textile waste.

The global textiles market is expected to shrink by 2.8% in 2020 compared to the previous year, however, forecasts show the sector is expected to recover by 2021¹⁹.

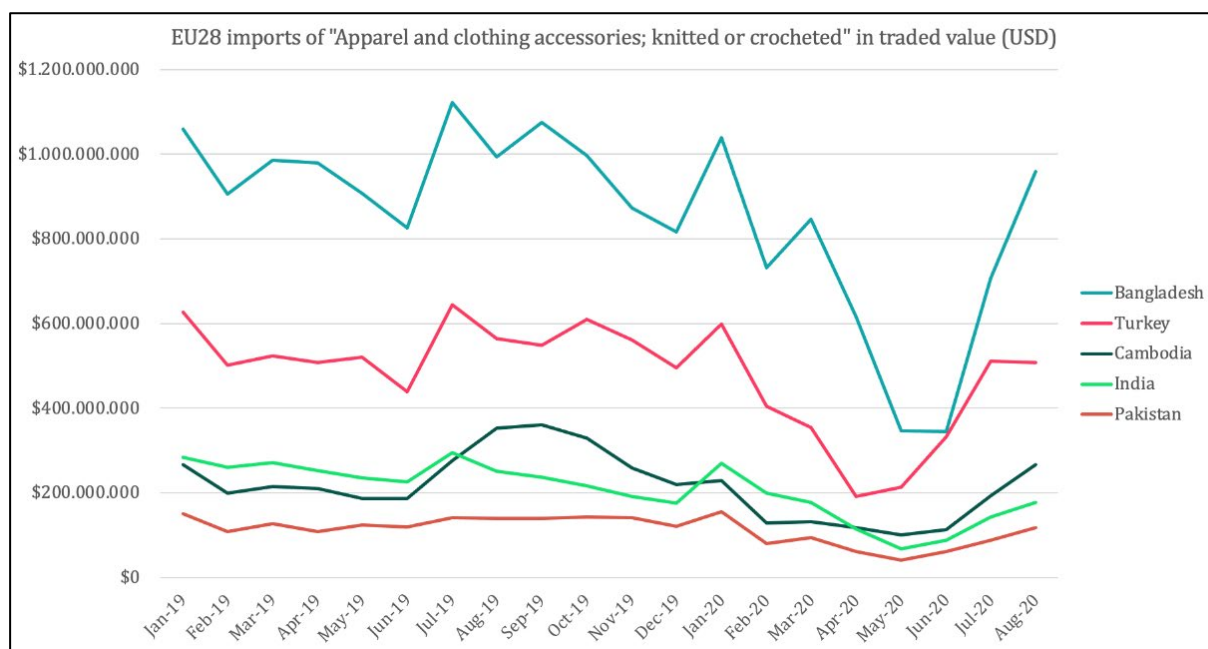


Figure 7, data retrieved from [UN Comtrade Database](#), graph by the authors.

Construction and buildings

The Construction Products Association estimates the 2020 construction output to shrink by 14.5%, but that the sector will rebound quickly by next year, with a projected output growth of 13.5%²⁰ To gauge the evolution of the EU's demand for construction sector primary inputs, we looked at the EU's monthly imports of cement and steel.

Imports to the EU: Figure 8 presents the EU's imports of cement or "Portland cement, aluminous cement ("ciment fondu"), slag cement, supersulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers" (category 2523) in traded value (USD). The imported value of cement is rather low, which could be explained by the EU sourcing its cement needs from domestic production, rather than importing cement from distant countries, which would significantly increase transport costs. There is no clear impact of the pandemic on the import of cement.

¹⁹ [Textile Global Market Report 2020-30: COVID 19 Impact and Recovery](#) (2020)

²⁰ [World Cement – CPA publishes Autumn Scenarios for construction output in 2020](#) (19 October 2020)

Figure 9 presents the EU's imports of "steel and iron" (category 72) in traded value (USD). We can see a small decline in steel and iron imports starting in March 2020, due to the EU's regional lockdowns. As of September 2020, the imports of steel and iron are still on the decline. A possible explanation could be that the EU steel producers have upped production to lessen dependence on foreign imports.

Due to China's large share in worldwide crude steel production, paired with their strict lockdown in January 2020, the global production levels remain relatively stable throughout the rest of 2020 while other producing countries entered into lockdown in March 2020. This caused global crude steel production to fall by 15% in April 2020 compared to the previous year, however provisional data from September 2020 indicates that global production has recovered from the shock of the pandemic²¹.

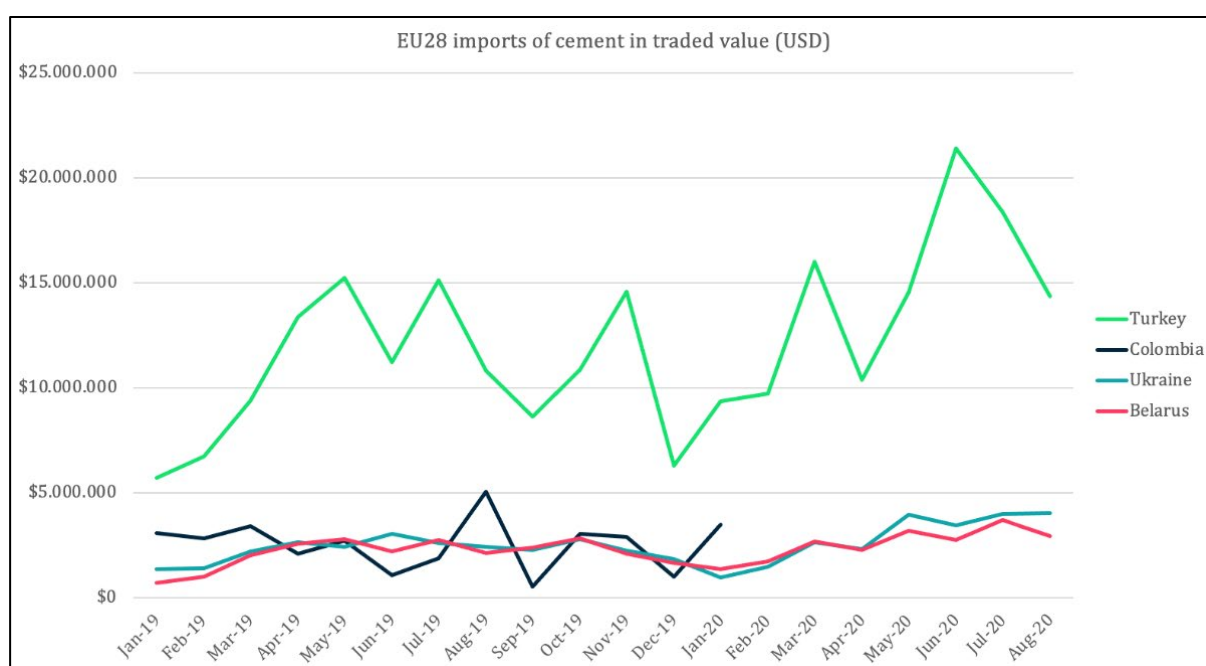


Figure 8, data retrieved from [UN Comtrade Database](#), graph by the authors.

²¹ [World Steel Association – September 2020 crude steel production](#) (23 October 2020)

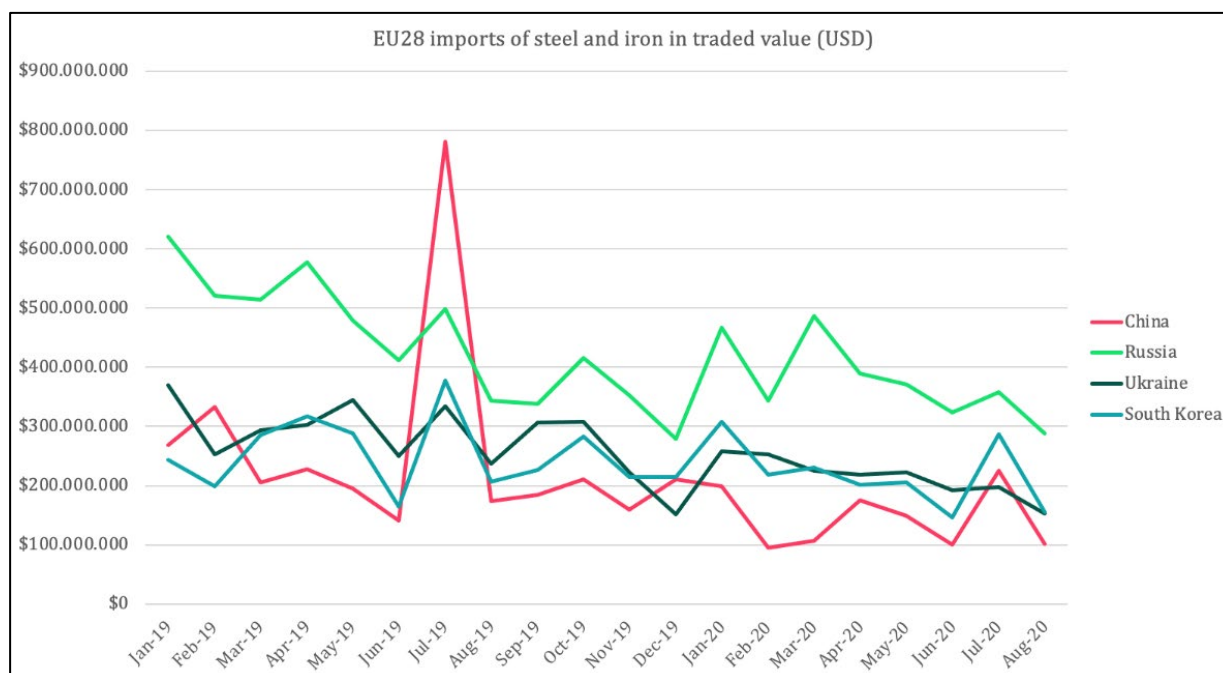


Figure 9, data retrieved from [UN Comtrade Database](#), graph by the authors.

Vehicles

Imports to the EU: Figure 10 presents the EU's import of vehicles (category 87) in traded value (USD). A clear, steep drop in the demand for vehicles is also visible on the EU's side starting in March 2020, however the imports seem to recover slightly from May 2020 onwards.

Exports from the EU: Figure 11 presents the EU's exports of vehicles or "Vehicles; other than railway or tramway rolling stock, and parts and accessories thereof" (category 87) in traded value (USD). In line with the WTO report, the EU vehicles export has significantly decreased since the pandemic. However, the data from May and June of 2020 indicate the sector's start to recover. While a slight decline is visible in August 2020, a similar decline is observable in August the previous year, so it is unclear if this is due to a seasonal decline in demand or due to the pandemic's second wave.

Linked to trade, global production of passenger vehicles is estimated to decline by at least 20% in 2020 due to the pandemic²², making it one of the hardest hit sectors considered in the CEAP.

²² [Global pandemic impacts automobile industry figures in Q1 \(2020\)](#)

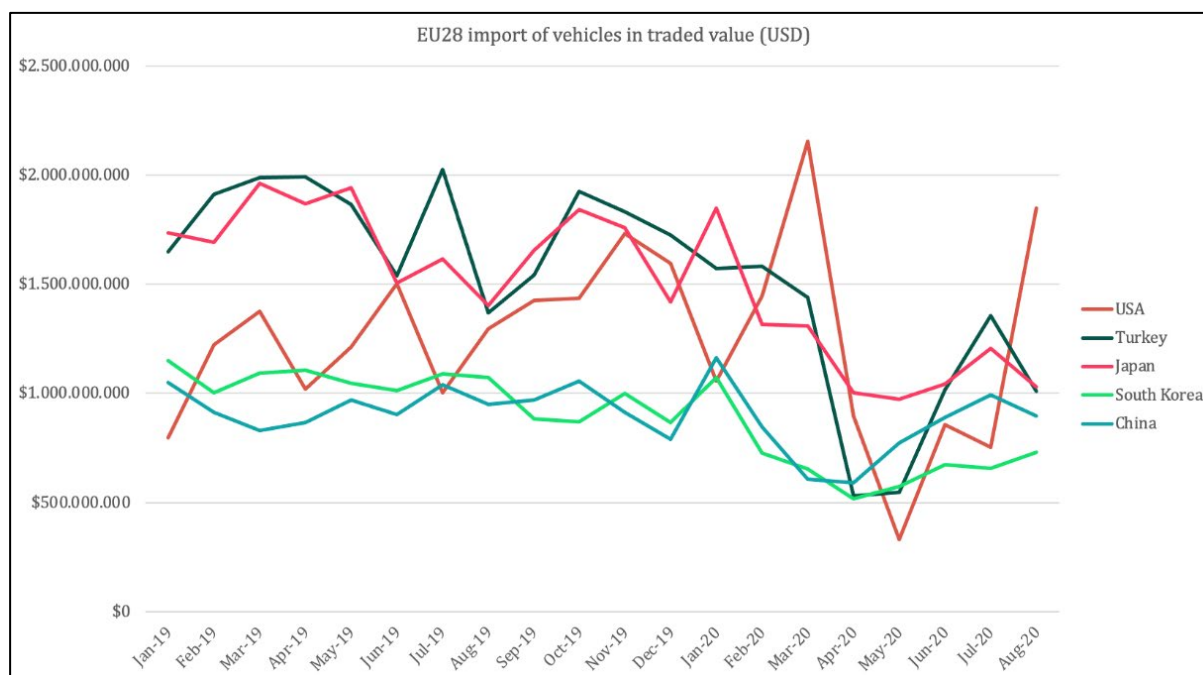


Figure 10, data retrieved from [UN Comtrade Database](#), graph by the authors.

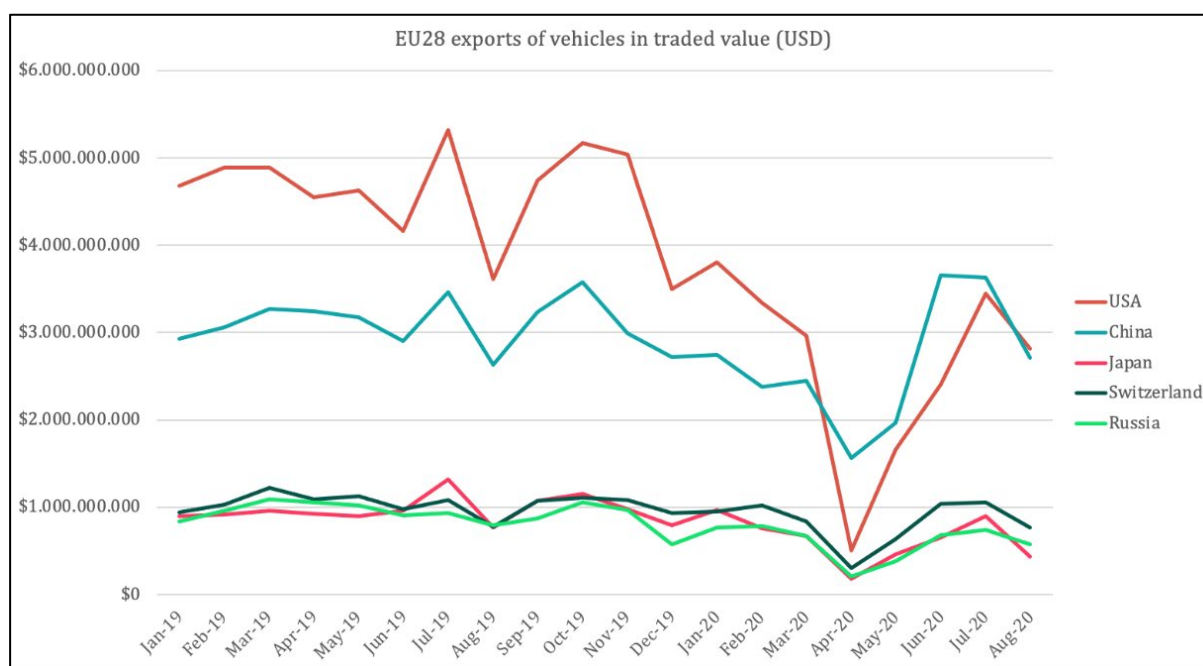


Figure 11, data retrieved from [UN Comtrade Database](#), graph by the authors.

Food and bioeconomy

The WTO's newest report on agricultural trade ([WTO, 2020c](#)) provides the latest trend in this sector. According to the report, agricultural and food exports have increased by 2.5% during the first quarter of 2020 compared to the same period last year. Demand

for certain agricultural products (e.g. non- food agricultural products such raw fur skins, wool or flowers) dropped dramatically while increasing for others (e.g., staple food, processed fruits and vegetables) reflecting initial panic buying and increased home-based consumption.

In April 2020, exports dropped also for several food products, notably for higher-value products, such as fresh produce, dairy and meat, which are generally more dependent on sales to restaurants, schools and the tourism sector than to households. In addition, high-value perishable products transported by air were hit harder by the sudden collapse in air passenger traffic, which diminished air freight capacity and raised costs.

[To be further developed]

How can EU trade policy support circular recovery?

The EU currently has 80 free trade agreements (FTA) fully or partly in place, and 40 pending or being negotiated. This makes it the world's most productive trade negotiating authority, and means that the EU has a significant influence over global trade.

Sustainability is strongly embedded in the EU FTAs with each FTA including a dedicated chapter on sustainable development, i.e. the Trade and Sustainable Development (TSD) Chapter. A cooperation framework is set up under the chapter with each partner, including to solicit input from policymakers, business and other stakeholders with a view to uphold the provisions set forward in the chapter.

However, the assessment of the EU FTAs and their supporting Sustainability Impact Assessments (SIA) shows that EU's trade policy still represents a largely underused potential for the EU to advance the circular economy agenda globally. To date circular economy is explicitly mentioned only in two EU FTAs, in both cases set out as pertaining to the environment only rather than being considered an underlying feature of the economy as whole.

Cooperation on the circular economy under EU FTAs will provide a concrete and powerful way forward for the implementation of EU FTA's sustainable development objectives. It will support both global circular economy and 'greening' of EU trade more broadly. This would both benefit the EU's own shift to circularity (e.g. ensure imports matching with EU standards) and also help to demonstrate EU leadership in promoting sustainable trade globally.

Taking a closer look at EU trade partners

For EU Member States, the FTA framework provides the blueprint for new businesses and business strategies. Businesses and jobs are important priorities in the aftermath of the COVID-19 crisis, and circular economy provides new and sustainable opportunities that can be enhanced through trade agreements. For Europe, the focus for new sustainable growth lies in exactly this area. The nexus between sustainability and traded recovery – and sustainable growth – are a high priority area, which this project will help to accelerate.

At the multilateral level (i.e. WTO), circular economy has gained strong traction as a key means to deliver sustainable development and the 2030 Sustainable Development Goals (SDGs) in a trade context. A number of EU's multilateral trade partners, in partic-

ular China²³, have expressed interested in cooperation on circular economy and therefore it will also be important to explore how trade linked to circular economy could be facilitated under the WTO regime. For example, concrete cooperation measures under EU FTAs could pilot policy measures that could later be scaled up at the multilaterally, thus advancing the global circular economy transition also beyond specific bilateral agreements.

[To be further developed to include insights re key partner countries / regions: Canada / CETA, NZ + AU, Africa / GSP, Lat. Am / Mercosur, and China under WTO.]

²³ [EU – China MoU on Circular Economy](#) (2018)

Conclusions and policy recommendations

[To be further developed]

Conclusions: trade trends and patterns in the pandemic aftermath

- There is a general drop in trade, but not as drastic across all sectors as anticipated. The recovery has started but it is slow (L-shaped) and the impacts of further waves and related lockdowns to recovery are unclear.
- Trade in goods:
 - Trends across EU CEAP relevant sectors vary and the effects of the pandemic over the course of the year are not always easy to identify apart from the immediate impacts of national lockdown periods.
 - Sectors showing clearest trends re negative impacts due to pandemic: vehicles and textiles
 - "Covid-resilient" sectors: electronics including e-waste and extractive industries underpinning e-trade
 - Not immediately clear what these trends mean for challenges and opportunities for circular economy. For example, what does the mixed impact of the pandemic on the mining industry mean for the uptake of secondary materials and how does the increase in disposable products impact waste related export needs. It also seems that the current supply chains underpinning trade in electronics and e-waste (e.g. batteries) are surprisingly resilient to changes.
- Trade in services
 - Clear global negative impact on service trade due to pandemic
 - This is significant in the circular economy context as its business models depend on trade in both goods and services
- Foreign Direct Investment
 - Clear global negative impacts, especially FDI in developed countries with developing economies being slightly less affected by the decline
 - This can be significant for circular economy related investment, however no clear conclusions can be drawn here

Policy recommendations: what can the EU trade policy do?

In the pandemic aftermath, nothing in the trade patterns seems to take away the validity of pre-pandemic recommendations on supporting circular economy related trade to increase circular business opportunities globally, including the EU playing a driving role. Therefore, the EU should continue removing trade barriers to circular goods and services, to support a global shift to circular economy as there is nothing to indicate that the pandemic would have drastically changed the need nor the opportunities for circular economy.

The above also means that circular economy business opportunities are viable option for green recovery. The only aspect possible hindering this is the pandemic related negative impacts on trade in services and how the slow recovery of the service sector will impact circular opportunities. Services play a crucial role in the development and maintenance of circular business models. Therefore, with or without the pandemic the EU trade policy framework needs to pay equal attention to facilitating trade in both circular goods and services, as circular models require facilitating trade in both.

[To be further developed]