WT/GC/REFORM/W/5

13 July 2026

(26-4990)

General Council
WTO Reform

Original: English

WTO REFORM: FURTHER REFLECTIONS ON DISCIPLINES, SUBSIDIES AND INDUSTRIAL POLICY

COMMUNICATION FROM THE EUROPEAN UNION

The following communication, dated 10 July 2026, is being circulated at the request of the delegation of the European Union.

1 INTRODUCTION

Importance of industrial policy for WTO Reform

1.1. In its submission on WTO reform of 21 January 2026 (WT/GC/W/986), the European Union highlighted level playing field and industrial policy as a key area for WTO reform, underlining the many shortcomings in the current WTO framework.

1.2. Negative trade effects of industrial policies have become a key challenge for the WTO and a source of tensions in the international trading system. The current WTO rules were agreed in 1995 and have not been updated since, despite significant growth of State interventions and of the resulting distortions, which have led to trade tensions among WTO Members.

1.3. Fair competition and limitation of negative spillovers are crucial for all WTO Members, both developed and developing ones. Industrialisation objectives of developing Members cannot be achieved if they need to compete in distorted global markets. Developed Members struggle to protect their existing industries from market-distortive practices. In both developing and developed countries, industries and jobs are at risk and the perception of unfair competition erodes support for WTO rules. Large-scale State interventions have resulted in excess production capacities, including overcapacities, which in turn distorts prices and production patterns, causing harm to WTO Members and industries worldwide.

WTO Reform: Disciplines, transparency and remedies

1.4. The EU continues to consider that addressing unfair industrial policies and practices is essential for a reformed WTO. It is critical to resolve these issues for the WTO to regain its role as the source and upholder of the highest standard of international rules, and avoid escalating trade conflicts, costly industrial subsidy races, and further weakening of the rules-based system.

1.5. The importance of this issue was strongly highlighted in the WTO reform discussions leading to MC14. The interest of Members in the topic is also demonstrated by the wide participation in the ongoing informal dialogues on Trade and industrial policy in Geneva. These discussions have shown that industrial policies are multifaceted there is a general recognition that State interventions can play a legitimate role in pursuing public policy objectives, but measures may also have negative spillover effects on other WTO Members.

1.6. In this broad context, the specific role of the WTO is to find solutions to the negative external trade effects of measures taken by Members.

1.7. As a part of WTO reform, the objective should be to review and, as necessary, update the multilateral rulebook. Ambiguities in the current rules need to be clarified, existing rules need to be strengthened, and additional rules need to be developed as necessary, including in areas that go beyond the scope of the current WTO Agreement on Subsidies and Countervailing Measures (ASCM).

1.8. The first step is to identify any gaps and shortcomings that prevent the WTO framework, in its current form, from effectively addressing the negative trade effects caused by State interventions in support of industrial sectors. The shortcomings, as highlighted in the EU's 21 January 2026 submission, cover three aspects: (i) transparency; (ii) disciplines; and (iii) remedies. These three aspects are intrinsically linked: disciplining distortive subsidies is inseparable from ensuring Members fully disclose their State interventions (i.e. increasing transparency) and from the introduction of effective remedies. Therefore, work on them needs to advance in parallel as, for instance, stronger disciplines alone are not sufficient to resolve these challenges.

1.9. The topics of transparency, disciplines, and remedies are central to wider reflections on competitive neutrality, exploring how to establish a level playing field between State enterprises that benefit from various State interventions and private firms, while addressing systemic imbalances. Addressing these imbalances is at the heart of a reform agenda that seeks to rebalance the WTO system, aligning it with modern economic realities while preserving its core principles of fairness and predictability.

2 FOCUS ON DISCIPLINES: GAPS AND SHORTCOMINGS TO BE ADDRESSED

2.1. The objective of this reflection paper is to examine in more detail gaps, ambiguities and shortcomings of disciplines addressing the commercial activities of State enterprises. The EU will submit further proposals/papers on other aspects of WTO reform relevant to the level playing field in due course.

2.2. This and other gaps identified by Members should form the agenda of modifications and additions of disciplines in the WTO rulebook needed to address the identified gaps.

Commercial activities of State enterprises

2.1 Current challenges

2.3. When not properly regulated, State-owned and State-invested enterprises active in commercial markets may distort competition. The weight of State enterprises in the global economy is increasing: in 2023, among the 500 largest firms in the world, over 200 were State-controlled, up from 50 in the year 2000.

2.4. They can unbalance the playing field thanks to State interventions such as regulatory advantages or access to privileged information. Their dominant market positions, often reinforced by legal monopolies or historic incumbency, can also stifle innovation and deter private investment, while cross-subsidisation between commercial and non-commercial activities skews further competition.

2.5. Such distortions not only disadvantage other (privately-managed) competitors but can also lead to inefficiencies, reduced consumer choice, and misallocation of resources in the broader economy. The same is true for private entities entrusted or directed by the State, especially those acting as providers of preferential funding or of raw materials and inputs used in the production process. Raw materials and other inputs provided on non-market terms cause market distortions in the final product, making it cheaper than it would be absent these distortions. They also cause distortions in the markets of the raw materials, whose access to foreign competitors becomes constrained or whose international prices increase as a result.

2.2 Gaps and shortcomings in WTO rules

2.6. This concern is only partially addressed by the WTO. State Trading Enterprises[1] are governed by GATT Article XVII, which subjects this specific set of State enterprises to disciplines on commercial considerations, non-discrimination and transparency. There is no specific WTO agreement addressing the potentially distortive conduct of other State enterprises in the marketplace, beyond the rules on provision of subsidies in the Agreement on Subsidies and Countervailing Measures (ASCM) which apply to public bodies and to private bodies entrusted or directed by the State.

2.7. Several WTO Members have taken specific commitments on State intervention and State enterprises in their WTO Accession Protocols.[2] These commitments vary in substance. Some include commitments to privatise certain State enterprises, or to require State enterprises to make purchases and sales solely in line with commercial considerations and refrain from discriminating, for instance, in access to infrastructure, and prohibit non-commercial mandates such as employment guarantees. Others are limited to general commitments to limiting State enterprises' privileges and promoting private sector competition.

2.8. However, these commitments are currently not actively monitored or enforced. This should be corrected.

2.9. Next to WTO accession protocols, many more WTO Members, including the EU, are bound by commitments on State enterprises in around 100 Free Trade Agreements, with a variety of definitions and disciplines. The EU's FTAs typically include obligations to commercial considerations and non-discrimination, establish core principles of competitive neutrality as concerns ownership, and are complemented by transparency obligations. Other regional trade agreements such as CPTTP and USMCA also include disciplines to limit the trade distortive impacts of State enterprises.

2.10. Taking together the WTO accession commitments and the Free Trade Agreements, it can be seen that a large number of WTO Members already share a set of international disciplines regulating the behaviour of State enterprises. While the scope of these disciplines varies, they share the goal of preventing State enterprises from distorting competition through unfair State support, non-commercial behaviour, discrimination, regulatory advantages and lack of transparency.

2.11. In other words, for many WTO Members commercial considerations and non-discrimination are already a widely shared international norm for the behaviour of State enterprises in the marketplace.

2.3 Possible way forward

2.12. This set of existing commitments should be reviewed and, as appropriate, consolidated at the WTO, so as to ensure a more systematic monitoring (drawing inspiration from the monitoring of STEs carried out by the Working Party on State Trading Enterprises), reporting, and more uniform application. This would be separate from the ASCM, as the issue at stake does not limit itself to subsidies.

2.13. A first step towards consolidation of these rules would be a mapping exercise that could be coordinated by the facilitator for level playing field issues. The resulting overview could then serve as a basis for developing a model schedule of commitments for acceding Members, as well as further targeted and consolidated rules for existing Members. The new set of WTO rules would address the identified gaps as regards the conduct of State enterprises in the marketplace by establishing obligations on commercial considerations, non-discrimination and transparency, in line with the shared international norms already found in Free Trade Agreements and WTO accession protocols.

[1] Working definition agreed by Members: "Governmental and non-governmental enterprises, including marketing boards, which have been granted exclusive or special rights or privileges, including statutory or constitutional powers, in the exercise of which they influence through their purchases or sales the level or direction of imports or exports."

[2] Afghanistan, Cambodia, Cape Verde, China, Comoros, Kazakhstan, Laos, Liberia, Montenegro, Mongolia, Nepal, Russia, Tajikistan, Ukraine, Vietnam.

3 NEXT STEPS

3.1. This communication is meant as an invitation for comments and reactions from Members. It is without prejudice to future proposals the EU will make as the reform work progresses.

3.2. Members are invited to consider this proposal as a part of the WTO reform discussions under the authority of the General Council. On the basis of this and other identified gaps, Members should consider the necessary amendments to the relevant agreements and develop new disciplines.

3.3. In parallel, the ongoing informal deliberations on trade and industrial policy constitute a useful space where the different topics can be examined with a view to supporting a shared understanding of the issues and fostering a solutions-oriented approach. The EU is prepared to co-host sessions on topics that can advance WTO reform.