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THE TRANSATLANTIC ECONOMIC RELATIONSHIP: THE WAY FORWARD**1. Ambition and pragmatism**

With the emergence of new actors on the international economic scene, the acceleration of globalisation which increases interdependence, the global and pressing challenges of sustainable development and security, the future of the Transatlantic relationship, which is the deepest and the broadest in the world, is at the centre of an in-depth reflection on both sides of the Atlantic. Politicians, business, think tanks and other stakeholders in the Transatlantic relationship are developing their vision of how this relationship should develop in the coming years in a way that is both mutually and globally beneficial.

This statement is UNICE's preliminary contribution to the debate under way and to the EU-US Summit to take place on 25-26 June 2004 in Ireland. It focuses essentially on the economic pillar of the relationship and the trade- and investment- related implications of the other pillars of cooperation in the light, notably, of the various options which are being suggested to go beyond the existing economic partnership with a view to strengthening and deepening it further. Proposals range from the completion of the Transatlantic market by 2015 to an Atlantic economic, trade and financial zone, a barrier-free transatlantic market place, a transatlantic economic area, a bilateral trade, regulatory cooperation and investment enhancement agreement or a Transatlantic free-trade area to name a few.

While cooperation between the two partners has significantly improved over the years, it is still below expectations and far from its full potential. Trade disputes, protectionist pressures, divergences in policy choices are placing considerable strain on the relationship at a time when cooperation is more needed than ever. UNICE therefore supports the launch, as soon as possible of an ambitious new Transatlantic trade and investment enhancement initiative which would, at the same time, lead to greater cooperation at multilateral level. To succeed, such an initiative should however be based on a forward-looking project widely attractive to citizens on both sides of the Atlantic so that EU and US decision-makers, including the respective legislative branches, would be encouraged to take the actions necessary to implement it in a reasonable timeframe.

As a first step, UNICE believes that the June 2004 Transatlantic Summit should agree to:

- launch an assessment of the existing areas of cooperation, agreed under the 1995 New Transatlantic Agenda (NTA) and EU-US Joint Action Plan and subsequent 1998 Transatlantic Economic Partnership (TEP), TEP Action Plan, 2002 Positive Agenda, and 2003 new economic initiatives and related cooperation structures to understand why the results are far below expectations and identify where the deadlocks are;
- examine each other's trade and investment barriers reports to understand why the lists continue to grow despite increased cooperation and the setting-up of an early warning mechanism with a view to making proposals to make them more interactive by highlighting the actions taken to overcome the identified barriers, to prevent new ones from arising and benchmarking progress;
- launch a study on the opportunity costs of the lack of regulatory convergence and further economic, trade and investment integration between the two sides of the Atlantic;
- invite both sides to review the situation jointly in six month's time so as to draw the lessons from the above-mentioned studies/consultation and develop the appropriate actions to prepare the decisions to be taken at the 2005 Transatlantic Summit.

Such an approach would allow to draw the lessons from the current experience of cooperation or non-cooperation and build for the future on solid grounds with wide public support.

UNICE is ready to contribute to this process by:

- launching, through its network, a wide survey of European business;
- working with US business partners organisations to explore possible cooperation for developing joint business proposals for this new Transatlantic project.

The comments below are UNICE's preliminary guidelines for further reflections.

2. The Transatlantic economic relationship matters for every citizen on both sides of the Atlantic¹

- The Transatlantic economic relationship is, by a wide margin, the deepest and broadest between any two continents. Ties between the two partners are ever accelerating. This is mainly due to transatlantic investment flows which, more than trade, are the backbone of the Transatlantic economy.
- The Transatlantic market is already a reality even if it can be further deepened significantly. Figures speak for themselves Investment stocks on both sides are of the order of € 1,500 billion. The total output of US foreign affiliates in Europe (\$333 billion in 2000) and of European affiliates in the US (\$301 billion) is greater than the total gross domestic output of most nations. In 2001, Europe accounted for half of total global earnings of US companies, as measured by US foreign affiliate income. European firms account for more than two-thirds of total foreign assets in the US ((\$3.3 trillion). There is more European investment in Texas alone than all US investment in Japan. In 2000, European affiliate sales in the US (\$1.4 trillion) were more than four times larger than US imports from Europe. Europe remains the most important foreign source of global profits for US companies.
- Two-thirds of US corporate research and development conducted outside the United States is conducted in Europe. America, the world's largest debtor nation, also relies on Europeans for capital to fund its record external imbalances.
- The transatlantic trade relationship is the most important one in the world with an average of more than € 1 billion Transatlantic trade and investment per day. The EU and the US together represent around 40% of world trade. The EU and the US are each other's main commercial partners for goods and services. In 2003 24% of European goods were exported to the United States (€ 200 billion) and 20,5% of EU imports come from the United States (€ 151 billion). The United States represents approximately 40% of European services imports and exports (of the order of € 116 billion in each direction).
- In 2000, US firms in Europe employed 4.1 million workers, close to 6 million if indirect employment is added in, and European firms in the US employed respectively 4.4 million and 7 million Americans.

These networks of interdependence are beneficial to the EU and US economies and the global economy by fostering economic activity and growth. They are also progressively bringing European and American societies closer together. However, they raise also new challenges on both sides of the Atlantic, in terms of a gradual erosion of each other's sovereignty and increased overlapping of economic and political agendas, which need to be addressed.

In that context, developments in the Transatlantic agenda are essential for the future of the Transatlantic relationship. To improve it and expand it further, UNICE supports the launch of a

¹ Figures are from DG Trade/Eurostat and study *"Drifting Apart or Growing Together? The primacy of the Transatlantic Economy"* by Joseph P. Quinlan, Center for Transatlantic Relations, Johns Hopkins University (March 2003)

new ambitious Transatlantic initiative, as soon as possible. For UNICE any new initiative should, however, respect the following basic principles which are the cornerstones of UNICE's 5 December 2003 post-Cancun trade and investment strategy².

3. Guiding principles for future developments in the Transatlantic economic relationship

3.1. Priority to the multilateral approach

- UNICE is a strong supporter of multilateralism. It believes that there is no satisfactory alternative to multilateral rule-making to tackle global economic challenges efficiently.
- In that context, UNICE actively supports the WTO rules-based multilateral trading system and would like to see that system strengthened. The Doha Development Round should therefore be pursued with all vigour and resources necessary so as to bring it to a successful conclusion as soon as possible. Although a common approach between the United States and the EU is not sufficient to succeed the leadership role of the two partners is crucial in this negotiating process. This includes a willingness on both sides to discuss and take significant commitments on sensitive issues such as agriculture, anti-dumping and investment. UNICE's priorities for the DDA are improved market access for industrial goods (tariffs and non-tariff barriers), services liberalisation (substantial offers) and trade facilitation (launch of negotiations on a multilateral agreement within the Single Undertaking).
- The EU and the United States must also fully comply with their WTO obligations. In particular they should implement rapidly the WTO rulings which concern them by repealing any legislation/measure found to be WTO-incompatible. Failure of the two biggest trading partners to do this would put the WTO dispute settlement system and the credibility of the multilateral trading system at risk.
- UNICE supports the fight against all forms of terrorism. It is a challenge for the entire international community. Actions to fight it, including economic aspects, should therefore be primarily addressed at the international level so as to ensure their coherence and effectiveness. The measures to be adopted should, however, neither hinder unduly legitimate trade and investment flows which generate economic growth nor unnecessarily overburden companies. Security and trade facilitation should be made mutually supportive. Cooperation between the administrations concerned on both sides of the Atlantic and mutual recognition of each other's implementing measures are the way forward pending concerted developments and agreed actions/measures at the international level.
- Similarly, global environmental challenges need to be tackled at international level if effective responses are to be found. The role played by the EU and the United States in this framework is determinant. UNICE looks therefore to their close cooperation and active involvement in the negotiations and participation in the resulting agreements.
- Excessive fluctuations between the currencies of the leading economies including the euro and the dollar should also be tackled in a framework larger than the Transatlantic context because of their effects on the other partners and the global economy in general.

3.2. The bilateral approach as a complementary to the multilateral approach

Any new development in the Transatlantic economic relationship should be explored based on the following conditions UNICE has set up for any new bilateral/regional agreement between the EU and third country partner(s) as a means to foster regional cooperation and trade and investment liberalisation. Such a new initiative should:

² 5 December 2003 UNICE Post- Cancun Trade and Investment Strategy

1. be based on clear economic and not purely political considerations;
2. build on and/or complement the multilateral trading system (see above);
3. be fully compatible with GATT article XXIV and WTO criteria in terms of coverage and reciprocity;

In the approach promoted by UNICE, priority for action should be given to areas which promise a significant increase in trade volume and additional market access for goods, services and investment through removal of non-tariff barriers, impediments to service trade and investment. Regulatory barriers, which have become the real barriers for business, should be at the centre of any new trade and investment bilateral initiative with the ultimate TABD objective of “Approved once, accepted everywhere in the Transatlantic market”.

Any new bilateral development should also contribute to improving significantly the competitiveness of European companies on international markets.

3.3. Build on existing programmes/structures

- UNICE supports a progressive approach centred on the gradual elimination of the remaining trade barriers for goods, capital and services.
- Numerous fields of economic cooperation have been identified in the framework of the Transatlantic Action Plan (TAP), Transatlantic Economic Partnership (TEP) and Positive Agenda. They have been promoted strongly by European business, notably through the Transatlantic Business Dialogue. They are still central to European business interests and should be actively pursued so as to achieve concrete and significant results as soon as possible.
- The areas of cooperation covered are:
 - WTO issues and DDA negotiations;
 - technical barriers to trade: regulatory cooperation (to improve dialogue between EU and US regulators and to deal with public participation in the regulatory process), mutual recognition of testing and certification (to reduce trade barriers resulting from any additional requirements on either side, to implement 1998 MRA). Enhanced cooperation on regulatory cooperation and transparency;
 - services: to reduce existing barriers through mutual recognition. Work focuses on mutual recognition in the fields of insurance and professional services (architects and engineers), enhanced cooperation on financial markets, air transport ;
 - procurement: to expand market opportunities for EU and US companies. Work focuses on the telecom field and electronic tendering;
 - biotechnology: to deal with safety and trade issues of mutual concern such as GMOs and other ethical considerations;
 - sanitary and phytosanitary questions:
 - agriculture including organic products;
 - intellectual property: to reduce costs in the patent sector, deal with EC accession to the Madrid Protocol, unauthorised use of software by governments, work related to two 1996 WIPO Treaties, geographical indications and trade marks;
 - environment: to tackle environmental issues with a trade dimension;
 - competition law: to foster cooperation on competition;
 - electronic commerce: to tackle specific issues of mutual interest;
 - customs procedures and e-customs: to facilitate imports and exports
 - research in the energy sector: to increase energy efficiency.

To foster concrete results in these areas, priorities should be clearly identified in this agenda with specific objectives and timetables and a process to review progress regularly.

- Disputes: the Transatlantic Summit agreed in 2003 to enhance cooperation on the pending disputes to de-escalate tensions and facilitate the search for solutions. This

complements the Early Warning Mechanism set up to prevent potential trade disputes at an early stage before they escalate both politically and legally. UNICE fully supports this approach however results are far below expectations and business is the victim of governments' inability to fulfil their commitments. More efforts should therefore be done on the EU and US sides to:

- address with determination, at the earliest stage possible, the potentially contentious measures/legislations and
 - find, for pending WTO cases, where appropriate, cooperative procedural agreements, to facilitate the search of WTO-compatible solutions in the shortest timeframe possible.
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- UNICE does not propose, at this time, a complete overhaul of the existing structures which have been set up in the framework of the New Transatlantic Agenda (NTA) and Transatlantic Economic Partnership (TEP) and Positive Agenda to foster the cooperation between the two sides of the Atlantic (Senior Level Group, TEP Steering Group and TEP Working Groups) but it would like to see them becoming more effective. It recommends that, on the basis of the conclusions of the assessment study to be launched at the June 2004 Transatlantic Summit, including a cost-benefit analysis, the appropriate actions are taken at the 2005 Transatlantic Summit.

4. The next steps

The assessment studies and consultation recommended by UNICE to be launched at the June 2004 Transatlantic Summit should help to formulate a new vision for the Transatlantic relationship for the next ten years. Developments in the DDA negotiations, implementation of multilateral trade rules and commitments by the key economic actors and developments of bilateral/regional trade deals, including tariff deals will be key determinant for the way forward.

UNICE will favour the approach which best serves the long-term general interests of business in Europe.
