



**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION
DIRECTORATE B
- POLICY DEPARTMENT -**

UPDATE ON TRANSATLANTIC RELATIONS

Abstract:

With a view to the 60th EP - US Congress Inter-Parliamentary Meeting and Transatlantic Legislators' Dialogue (London, 1-4 December 2005), this note provides a summary update on

- *the political situation in the United States,*
- *the state of bilateral relations,*
- *issues of shared interest to both sides*

since the last bilateral encounter which took place in June in Washington DC.

It is to be supplemented by material on specific items of the agenda, to be provided by the European Commission closer to the meeting.

This note was requested by the European Parliament's Delegation for relations with the United States of America

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1. Background: US domestic situation

Less than a year into his second term of office, President George W. Bush is facing his toughest set of challenges yet. His approval rates have plunged after continued bad news from Iraq and the mismanaged response to Hurricane Katrina, and only marginally recovered after the administration's better performance on Hurricane Rita, hovering around the 40% mark. House Majority leader Tom Delay had to step down (temporarily) after being indicted over a campaign financing scandal in Texas, while Vice-President Cheney has been tarnished by the indictment of his chief of staff, Lewis Libby, in the CIA leak affair.

After securing the confirmation of John Roberts as Chief Justice relatively smoothly, the White House badly misjudged the nomination of Harriet Miers to the Supreme Court, which was blocked by the Conservative base within the Republican party. Though perhaps less controversial, the replacement appointee, Samuel Alito, can expect to face tough questions from both sides of the aisle during his hearings (scheduled to start in January). With more and more resources diverted to damage control over these developments, the President's ambitious conservative agenda for his second term had to be put on hold.

Despite the above difficulties which mostly concern the White House, the Republicans are still well-placed to retain control of both Houses of Congress at the next congressional elections, which will be held in November 2006. All seats in the House of Representatives and one-third of the seats in the Senate will be up for election at that time. Although local issues play a more important role in mid-term elections than in presidential election years, there is also the possibility that a slump in the economy or worsening developments in Iraq could still turn November 2006 into a referendum on the Bush administration's leadership performance. Some Democrats therefore see a slim, but real chance to regain control of the House of Representatives next year.

2. Bilateral relations

After differences over Iraq had put bilateral relations under considerable strain, President Bush signalled a more conciliatory attitude towards the EU for the second term with his February 2005 visit to Brussels. The June summit in Washington and a visit by Commission President Barroso to the White House in October marked the return to normal relations at the highest level.

2.a. The Washington Summit - and beyond

The June summit adopted a series of declarations on global issues (see below) as well as three texts more specifically concerned with bilateral relations: *An Initiative to Enhance Transatlantic Economic Integration and Growth* and, under its umbrella, a declaration on *Energy Security, Energy Efficiency, Renewables and Economic Growth* and a *Roadmap for Regulatory Cooperation*.

The emphasis is thus clearly on economic relations, with little support either in Congress or among EU Member States for a new, overarching Transatlantic Agreement as advocated by Members of the European Parliament in the past.

An own-initiative report of the EP's Foreign Affairs Committee (Rapporteur: Elmar Brok) will consider prospects for such an enhanced transatlantic partnership; it is to be debated in the March 2006 plenary session.

2.b. An integrating transatlantic economy

The transatlantic economy, meanwhile, certainly provides a suitable field for the resumption of constructive dialogue, having remained largely impervious to political differences. Indeed, despite occasional rhetoric of boycott on both sides, bilateral trade in goods alone has reached a magnitude of € 1 billion a day. Against this figure, the trade dispute cases which grab the headlines actually affect less than 2% of the total volume. More significantly, foreign direct investment has significantly expanded over the last few years. This unique degree of economic interdependency provides a solid foundation for EU-US relations.

This progressively integrating, transatlantic economy still harbours considerable potential: According to a recent OECD study, a fully liberalised transatlantic market could increase GDP per capita over the medium term by up to 3% for both sides, with knock-on effects of up to 1,5% of GDP on average for third countries. - Nor can the risks involved in not developing this potential be ignored, as 14 million jobs, distributed about equally over both sides of the Atlantic, depend on the strength and resilience of this economic relationship.

The Initiative to Enhance Transatlantic Economic Integration and Growth sets out to address the remaining obstacles to trade and investment by listing 10 areas for increased regulatory cooperation. Key areas include balancing smooth travel and trade against security requirements, protecting intellectual property rights and encouraging technological innovation, especially on cyber-security, e-access and related issues. Work programmes are to be developed by the end of this year, and progress reported to the next EU-US summit. However, due to the US administration's domestic preoccupations since June, progress so far appears to have been rather slow.

The Initiative also advocates continued stakeholder consultations through the Transatlantic Business Dialogue and Transatlantic Consumers' Dialogue. Furthermore, recognising the key role of legislators in achieving its stated objectives, it explicitly mentions the Transatlantic Legislators' Dialogue and encourages regular meetings on economic policy and regulatory matters.

The EP's Committee on External Trade (INTA) is currently preparing an own-initiative report on the transatlantic economy (Rapporteur: Erika Mann) which will take stock of the Initiative's implementation and look into further options. It is to be debated jointly with the above-mentioned AFET report in the March 2006 Plenary.

2.c. Issues in dispute

Meanwhile, a number of bilateral issues remain unresolved: The Byrd amendment is still in place, skewing competition, while the Helms-Burton and Buy America acts limit market access for EU companies. The Boeing vs. Airbus dispute over subsidies to passenger aircraft construction awaits a ruling by WTO.

Furthermore, the US still does not comply with the 2000 WTO ruling against Section 110(5)b of the *US Copyright Act*, which exempts the vast majority of bars, restaurants and other commercial establishments in the US from paying royalties to authors and composers for the public performance of music. A temporary EU/US financial agreement to compensate European right holders for the economic losses, until such time as the US Copyright Act was amended, expired as of December 2004, making the US currently “non compliant” with its TRIPs obligations. This manifest reluctance by a major economic partner to comply with the WTO ruling is likely to discredit the dispute settlement system. It also casts doubt on the declared US commitment to the principles of intellectual property overall.

The *UNESCO Convention on the Protection of Cultural Diversity* adopted on 20 October is also perceived as a trade issue by the US, who voted against it, while the vast majority of states subscribed to the Convention's definition of cultural diversity as a common heritage of mankind, inseparable from the respect for human dignity itself. The Convention reaffirms a state's sovereign right to set cultural policies in order to protect and promote the expression of cultural diversity. The text is currently undergoing ratification and will come into effect once 30 parties have ratified it. The European Parliament should be officially consulted on it in December, with ratification by the Council then expected by May 2006.

In its April 2005 resolution prior to the adoption of the Convention, the European Parliament had voiced its support for the draft text, emphasizing that cultural goods could not be equated with any other marketable commodity. On the key question of the relationship between the Convention and existing international trade law, the Parliament explicitly called for at least equal status for the UNESCO Convention.

3. "Working together"

Of the ten declarations adopted by the Washington summit in June, seven could be said to cover joint approaches to global issues, rather than bilateral relations in the narrow sense, making "working together" the new transatlantic motto:

- *Democracy, Freedom and Human Rights*
- *Working together to promote Peace, Stability, Prosperity and Good Governance in Africa*
- *Working together to Promote Peace, prosperity and Progress in the Middle East*
- *Enhancing Cooperation in the field of Non-Proliferation and the Fight against Terrorism*
- *Joint Programme of Work on the Non-Proliferation of Weapons of Mass Destruction*
- *United Nations: 60th Anniversary of the Signing of the San Francisco Charter*
- *Working together to Fight Global Piracy and Counterfeiting*

There appears to be ample opportunity therefore - and an equal amount of responsibility - for the two powers to exercise joint leadership on global issues.

3.a. Iran

The challenge presented by Iran's nuclear programme has provided an opportunity for transatlantic cooperation in the diplomatic field. While basically more inclined to consider sanctions, the US have gone along with the incentive-based negotiating approach advocated by Britain, France and Germany (the "EU-3").

Following Iran's rejection of the EU-3's proposal in early August, and its subsequent resumption of enrichment activities, the four powers jointly supported referring the issue to the UN Security Council. This was agreed in principle on 23 September, although a new vote of the IAEA Board would have to be taken for the actual referral.

Russia and China were among 12 countries that abstained on the first vote; given their veto rights in the Security Council, it is far from clear that any decision on sanctions could be taken there. Further complicated by the new Iranian President's increasingly belligerent stance and his call to "eradicate Israel", the issue is to be discussed by the IAEA Board again on 24 November.

3.b. Middle East

Israeli PM Sharon's bold decision for unilateral withdrawal from the Gaza strip, implemented in September, marked a turning point in Israeli-Palestinian relations. Although it did not end the intifada, it provided a new impulse towards peace through genuine Palestinian statehood. It also showed a renewed US commitment to the Peace process, with the nomination of special representatives and several trips by the Secretary of State herself, supported by cautious EU involvement.

Most recently, Secretary Rice even extended her stay in the region to help finalise the agreement on *Gaza's border crossings with Israel and Egypt*, which she announced jointly with High Representative Solana on 15 November. The deal also includes video surveillance of the Rafah crossing to Egypt by a joint EU-Palestinian team. Israel will have access to the video via the Europeans, but will not have veto power over individuals moving through Rafah, as it had wanted.

3.c. China

The re-emergence of China as a major power, and the smooth insertion of its booming, export-heavy and energy-hungry economy into the global framework, undeniably pose a challenge to the rest of the world. Globally speaking, the main challenge for the Chinese Government for the foreseeable future is to lift its citizens out of poverty; it needs to sustain economic progress but certainly wants to retain its current one-party political system. While China denies any aspiration to dominance, and has been at pains to present itself as a responsible regional power, it is becoming increasingly proactive in the region and has an obvious interest in reducing what it perceives as undue US regional influence.

The US in turn is generally inclined to view China as a potential threat to its security and that of its allies in Asia. This is illustrated by Congress effectively vetoing a bid by the Chinese oil company CNOOC for Unocal, by Defence Secretary Rumsfeld's comments on China's military build-up, or by the US administration basing its protests against any move to raise the EU arms embargo not on Human Rights considerations, but on the risk that US military personnel might then face European weapons sooner or later. Economically too, China is perceived as a threat, whether for its textile exports flooding the US market (and being hit by restrictions similar to the EU quota) or its devalued currency which is blamed, rightly or wrongly, for much of the US deficit.

The EU on the other hand sees China as an economic and strategic partner, and has a major political and economic stake in supporting China's successful transition to a stable, prosperous and open country that fully embraces democracy, free market principles and the rule of law. As clearly expressed in both EU and China papers issued in 2003, there is no basic conflict of interest between China and the EU, and neither represents a threat to the other, although their views sometimes diverge given their historical, cultural, political and economic differences.

Having supported China's accession to the WTO, the EU found itself (unsurprisingly) flooded with textile products from China earlier this year, when transition regimes expired. The problem was in fact largely home-grown, EU producers having failed to use the transitional period to adapt to new global conditions. With the new quota agreed on 5 September for a new transition period, the problem was contained. At no time did official EU positions hint at unfair practices on the Chinese side. Trade Commissioner Peter Mandelson was particularly clear on the fact that China had every right to play its competitive advantage, and that European consumers would benefit from it.

The most serious divergence certainly exists over the interpretation of the Rule of Law – in particular in relation to human rights, personal liberty and democracy. If the EU is serious about implementing a strategic partnership with China, it needs to encourage and support Beijing's democratisation process and the rule of law. There is some concern in the US that the expansion of Sino-European political relations reflects a hidden agenda to create a multipolar world to counter US influence. Certainly, there is some evidence that the Chinese hope for this.

3.d WTO Doha Development Round

Following the disappointing results of the July 'Mini-Ministerial' and the failure of several attempts at breakthrough since, it appears that the key participants are now resigned to "*recalibrate*", i.e. scale down the expectations for the Hong Kong Ministerial in mid-December, and probably for the Round as a whole.

Agriculture is usually presented as the main sticking point, with the EU criticised both by the US, who made far-reaching offers, and by developing countries for its unwillingness to sacrifice more of the CAP. The EU would seem therefore to run a real risk of becoming the scapegoat for any breakdown of the talks overall, despite the fact that the *uncompromising US stance on cotton* is at least as likely to provoke developing countries.

Meanwhile, negotiations on market access for *industrial goods ('NAMA')* and *Services* are stalled, and several key development issues (aid for trade, special and differential treatment) are being relegated to the sidelines of this "Development Round". Unless these questions are addressed, the G20 group of developing countries could well impede the proceedings, as they did at Cancun in 2003.

As the talks work on the single undertaking principle ("Nothing is agreed unless everything is agreed"), there looms the risk of not reaching an agreement before the US administration's fast track negotiating authority, reluctantly granted by Congress, expires in mid-2007. The price of failure however would be high in economic terms alone - for all involved. When viewed together with the above-mentioned protectionist measures against China, it appears even more costly in terms of the credibility of the multilateral approach and the principle of free trade.