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

NOTE

on Transatlantic Economic Relations

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Author: Stefan Schulz

A de facto Transatlantic Market

In recent years, it may have appeared as if the strain on transatlantic relations in the diplomatic field had at times affected the economic sphere. - In fact, as recent academic work¹ has demonstrated, the opposite is true: Trade between our two great markets has reached unprecedented levels, making the United States and the European Union each other's main trading partner by far: 25,8% of EU exports, to the tune of € 226 billion, go to the US, while 16,8% of our imports, worth some € 157 billion, originate from there. - In more graphic terms, our trade relationship alone is worth a billion Euro a day.

An even better indicator of long-term economic relations is foreign direct investment. Here the figures confirm and reinforce the picture presented by the trade statistics: Over half the EU's foreign direct investment goes to the US, while almost two thirds of foreign investment inflow into the EU come from the US. Taken together, mutual foreign investment across the Atlantic by now amounts to over € 1.5 trillion . Most significantly however, investment in both directions grew significantly in 2003, even as political dissent flared over Iraq.

Flowing back and forth across the Atlantic rather than to low-cost third countries, such a volume of investment obviously also represents a sizeable slice of employment as well. In remarkable symmetry, close to 7 million jobs on either side are provided by the transatlantic economy - and therefore dependent on its continued functioning and expansion.

For all practical purposes, we are dealing with one, transatlantic market, one progressively integrating economy. As such it is largely independent of day-to-day political differences, for it has its roots in a shared sense of Western identity. Faced with the growing challenge of emerging global players like India or China, such cultural affinities - despite certain differences in consumer attitudes which we would do well to acknowledge - translate into hard currency.

At the same time, this means the US and European economies are increasingly interdependent for growth and employment: A recent OECD study² of the phenomenon concluded that a fully integrated transatlantic economy, eliminating all of the remaining, non-tariff barriers, could yield GDP growth of up to 3 %, both in the US and in Europe.

Looking at these facts and figures, we need to be aware of, and draw others' attention to, three key aspects:

- ***the extraordinary interdependence that has developed between our economies, in practice creating a unique Transatlantic Market;***
- ***the sizeable potential for growth and employment which exists in that market, but still lies untapped due to remaining barriers; and conversely,***
- ***the risks inherent in taking this unique relationship for granted, treating it with benign neglect rather than the required degree of care and attention.***

¹ Daniel S. HAMILTON/Joseph P. QUINLAN (eds.) *Deep Integration : How Transatlantic Markets are Leading Globalization*. June 2005

² OECD Economics Department: *Working Paper "The Benefits Of Liberalising Product Markets And Reducing Barriers To International Trade and Investment : The Case of The United States and the European Union"*. May 2005

The Way Ahead

The special nature of this transatlantic economic relationship, unique in the world, carries huge potential not only for the participating economies, but for the global economy as a whole. The OECD study referred to earlier sees growth of up 1,5% for the OECD area outside the US and the EU-25 as the potential dividend of a fully liberalised transatlantic economy. In other words, the transatlantic market remains the tandem engine for the world economy.

This means that we carry a responsibility to develop the relationship, not just in our respective citizens' interest, as consumers and as workers or job-seekers, but in the interest of the wider world and of the development goals to which this Parliament subscribes.

There is a clear need to strengthen the transatlantic relationship in the economic field, just as in that of security, in order for both partners to exercise joint leadership in a rapidly changing global environment.

As has been illustrated, the transatlantic economy has been driven by private investment, and has thrived most recently in the shadow of political relations, and fortunately, despite the occasional strains on the latter. Now that relations have warmed again, it is time to shine the spotlight on it and encourage "political ownership" of the transatlantic relationship in order to fully harness its potential.

With the EU's other transatlantic partner, Canada, negotiations are well under way for a new, wide-ranging Trade and Investment Enhancement Agreement, centred on regulatory co-operation. Perhaps, after a decade of EU-US relations governed by the 1995 New Transatlantic Agenda, something similar - or in any case a new type of agreement - should be put into motion to make our relationship with the US less rhetorical and more programmatical.

Indeed, rather than a traditional free-trade agreement (since the unique nature of our relationship has left that stage behind), what is needed now is a new framework for liberalisation. By clearly defining a process for gradual regulatory convergence, such a programme could ensure the removal of remaining non-tariff barriers in key markets, and thereby provide the economic underpinnings of a New Transatlantic Partnership.

Follow-up to the Washington Summit

A practical step in that direction was taken at the June 2005 Summit in Washington, DC, when the assembled leaders launched the "Initiative to Enhance Transatlantic Economic Integration and Growth", Embracing concepts which this committee had urged in its contribution to the resolution preparing the summit¹.

The Initiative's ten-point agenda is rightly headed by the commitment to "establish a high-level Regulatory Cooperation Forum". This mechanism is intended to complement the existing, sectoral activities through an informal exchange of views and experience. By including advance

¹ European Parliament resolution on ensuring the success of the forthcoming EU-US Summit in Washington DC - adopted on 9 June 2005 (P6_TA(2005)0238)

discussions of annual work programmes, it will help to identify possible divergent regulatory approaches in good time.

Among the other items of the Initiative agenda, a few key areas of cooperation deserve particular mention:

- Joint projects towards providing e-accessibility for the disabled and the elderly, ensuring cyber-security and combating "spy ware" should yield beneficial synergies.
- Compatibility of shipping and passenger security programmes in the post-9/11 world is to be pursued both bilaterally and through cooperation in the World Customs Union.
- Faced with growing global piracy and counterfeiting, the EU and the US intend to coordinate their efforts to protect intellectual property rights.

Overall, the agenda agreed in Washington certainly points in the right direction and highlights the right issues. Measured against its six-month deadline for establishing work programmes however, progress so far has been somewhat disappointing. A pick-and-choose approach will hardly serve here: The business community, championed by the TransAtlantic Business Dialogue, is expecting tangible results.

Parliament should echo the business community's expectations and call for a swift and comprehensive implementation of the agenda outlined in the Summit's Initiative to Enhance Transatlantic Economic Integration and Growth, with a clear timetable for joint actions and projects.

Trade issues

A further integration of the transatlantic market would impact far beyond the US and EU economies. In the immediate future, with Agriculture the key chapter of the ongoing WTO negotiations, it is clear that the functioning of the multilateral trade framework hinges on the two great trade powers coming to an agreement.

Over the medium or longer term, bilateral effects would make themselves felt as well: One prime beneficiary would be Mexico, as agreed or mutually recognised standards between the EU and the US would remove the main obstacle to expanding its trade with Europe. Other Latin American countries would also profit from such a development.

While enhancing its trade relationship with the US and striving to contribute to a successful conclusion of the Doha Round, the EU should not limit itself to its framework, but remain open to all types of trade agreement that serve the objective of development through trade.

Looking more closely at bilateral trade disputes (even though, in terms of volume, these cases concern less than 2 % of exchanges), two different types of cases may be distinguished:

On the one hand, classical disputes focus on state subsidies or tax breaks, such as in Boeing vs. Airbus or the steel sector. Without any prejudice to their respective merits, resolution of these cases may safely be left to the competent panels.

On the other hand, differences that essentially concern issues of environmental protection and food safety (GMOs, hormone-treated beef, unprocessed dairy products) increasingly touch upon

core areas of legislation. They are in fact deeply rooted in cultural peculiarities which have developed over two centuries and are unlikely to be eliminated by decree. On these it may actually be more profitable to agree to disagree, respecting our citizens' differing preferences and preoccupations, while focussing our negotiators' time and energy on more promising fields.

The Parliament may wish to draw attention to this distinction, and to call upon the industry on both sides to respect consumers' wishes rather than seek market shares through the courts.

The Role of the European Parliament

While the tasks mapped out in the Summit Initiative concern the regulators first and foremost, achieving a fully integrated transatlantic market will require the active involvement of both sides' legislators. As suggested previously, ***the Transatlantic Legislators' Dialogue should be intensified, both at the members' level and through staff exchanges. Our twice-yearly meetings ought to closely monitor progress on the Initiative.***

Eventually, the legislative work will require a more permanent structure, highlighting the need for the ***Transatlantic Assembly*** this Parliament has long called for. Meanwhile, in view of the regular review of the Initiative which is to take place at EU-US summits, it seems obvious that legislators ought to have an input there. While the dynamism of the TransAtlantic Business Dialogue is to be commended, it might seem strange that summit leaders hold a structured dialogue with the business community, but not with the peoples' elected representatives.

Given the legislative implications of the Initiative, Parliament should reiterate its request for MEPs to be included in the EU delegation to transatlantic summits.