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41**Lots of Talk, Little Action? Chances and Impediments for a New EU-U.S. Trade Agenda**

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What is the scope of a U.S.-EU approach on concluding the Doha Round?

What are the chances and stumbling blocks for deeper transatlantic integration?

"America and Europe may often bicker, but in the end we know we are each other's partner of choice."
Karel De Gucht 2011¹

On 29 November 2011, the Transatlantic Economic Council (TEC) met in Washington, DC, to discuss how to deepen the transatlantic marketplace. The meeting was a window of opportunity to breathe some new life into the transatlantic trade partnership before the U.S. presidential campaign gears up in early 2012: After an initial neglect of trade policy, the Obama administration is slowly defining its trade policy agenda, so far with a focus on the Pacific region. The U.S. Congress finally passed three pending free trade agreements (FTAs) with South Korea, Panama, and Colombia in October 2011, freeing the way for new projects. While the U.S. public is increasingly skeptical about trade, most Americans still say that increased trade with advanced countries such as Canada, Japan, and the European Union would be good for the United States. And at least some industries and industry federations such as the U.S. Chamber of Commerce have rediscovered their interest in deeper transatlantic integration.

The U.S. and EU could have used the 2011 TEC meeting to launch a bigger vision for the transatlantic partnership and position themselves to put pressure on the upcoming Ministerial Conference of the World Trade Organization (WTO) on 15-17 December 2011. Alas, this opportunity has been missed. This is not to say that the meeting failed. First and foremost, the TEC tasked a joint High-Level Working Group on Jobs and Growth with identifying and assessing options for strengthening the EU-U.S. trade and investment relationship. The group will be co-chaired by United States Trade Representative Ron Kirk and EU Trade Commissioner Karel De Gucht. As such, the working group is coordinated by two high-ranking officials, which gives some hope for an ambitious agenda at least. In addition, the TEC endorsed a comprehensive work plan for electric vehicles and related infrastructure. And it restated its commitment to prevent the emergence of new and unintended barriers to trade and investment, especially in key emerging technologies such as nanotechnology and cloud computing. But whether this will suffice is rather questionable. Without doubt, it will take more vision and leadership than presented at the latest TEC meeting to further the transatlantic project. The effort would be worthwhile as both transatlantic economic integration and a conclusion of the Doha Round offer considerable benefits.

This Issue Brief will provide a short overview of the current EU and U.S. trade policy agendas to identify commonalities and scope for future cooperation. It will then turn to two areas where a greater transatlantic effort is long overdue: The Doha Round and transatlantic economic integration. We aim at

explaining why progress has been so slow while at the same time highlighting the benefits of closer cooperation. The paper ends with recommendations on how to enhance the transatlantic trade partnership.

The EU and U.S. Trade Agenda

THE EU TRADE AGENDA

Trade policy is one of the few areas in the EU that had been delegated to the European Commission from the start of the European Community (1957). The Commission coordinates the positions of the member states and speaks with one voice. As such, trade has become one of the most important pillars of the relationship between the EU and third countries.

The most important pillar of EU trade policy is the multilateral level: the WTO and its predecessor, the GATT. The EU has actively participated in several GATT negotiation rounds and is a strong supporter of the WTO since its creation in 1995. Currently, the EU is pushing for a successful conclusion of the latest trade round, the Doha Round, as its top trade policy priority. Through the Doha Round, the EU aims not only at improving market access for goods and services (foremost in China, Brazil, and India). It also wants to improve and clarify WTO rules on subsidies that distort the production of industrial and agricultural goods as well as rules to govern the use of trade defense instruments. Last, it demands that a Doha Deal must contain substantial development measures, for example by addressing trade distortions caused by subsidies to cotton farmers in developed countries and by guaranteeing market free access for the least developed countries (LDCs).²

In addition to the multilateral level, the EU also pursues an agenda of “competitiveness-driven” free trade agreements (FTAs). This approach is part of the EU’s larger trade strategy “Global Europe: Competing in the World,” introduced by the European Commission in October 2006. The plan, which aims at creating growth and jobs in Europe, identified a series of initiatives to ensure that trade policy was adapted to the competitiveness challenges of the future. One of these policies was the conclusion of new FTAs with major trading partners, particularly in Asia: “The Commission will propose a new generation of bilateral free trade agreements with key partners to build on WTO rules by tackling issues which are not ready for multilateral discussion and by preparing the ground for the next level of multilateral liberalisation. The key economic criteria for new FTAs should be market potential—particularly the emerging markets of Asia.”³ The so-called “trade plus” issues the EU is pushing for include government procurement, intellectual property rights protection, competition, as well as environmental and labor requirements.⁴

The shift in the EU’s trade agenda has been brought about by a number of factors. First to name are the difficulties to conclude the Doha negotiations and the EU’s failure to achieve its aim of a comprehensive WTO agenda, including the aforementioned “trade plus topics.” The second reason was President George W. Bush’s trade policy: Under his leadership, the U.S. pursued an active agenda of “competitive liberalization,” signing a number of FTAs ranging from CAFTA (an FTA with the Central American countries) to the U.S.-South Korea FTA (KORUS FTA). The EU feared to lose in the race for market access in the emerging

economies, particularly in Asia. Third, the formation of FTAs among Asian countries themselves and the risk of trade diversion effects on EU exporters motivated the Commission to engage in FTA negotiations.⁵

The criteria for new FTAs are: 1. market potential, 2. openness to EU trade, and 3. existing FTAs of other competitors (U.S., Japan, China).⁶ The European Council subsequently issued negotiating mandates for five so-called “priority partners,” including South Korea, India, and the Association of South East Asian Nations (ASEAN). Negotiations have had, so far, mixed results: The FTA with Korea was signed in 2010, while the negotiations with India, on the other hand, are not progressing. Because of irreconcilable differences, the regional FTA negotiations with ASEAN countries have been abandoned in favor of bilateral FTAs: The EU is currently negotiating with Singapore (launched in March 2010), Malaysia (October 2010), and Vietnam (March 2010). Negotiations with the Gulf Cooperation Council are on hold, while FTA negotiations with MERCOSUR were re-launched in May 2010. The EU has concluded negotiations on trade deals with Colombia and Peru, as well as with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.⁷ While the EU in the past has been hesitant to pursue bilateral trade deals with other industrial countries out of fear of endangering the WTO, slow progress in the Doha Round motivated the Commission to explore this option. Currently the EU is engaged in trade negotiations with Canada and Japan.

An FTA with the United States, however, is—so far—not on the Commission’s agenda. While German Chancellor Angela Merkel briefly flirted with the idea of an FTA in 2006, she settled on the less ambitious Framework for Advancing Transatlantic Economic Integration and the TEC when Germany took over the EU Presidency in 2007. Since then, she has invested little energy in furthering transatlantic economic integration, and likewise her European colleagues have shown little interest in such an endeavor.

THE U.S. TRADE AGENDA

While for half a century the U.S. has been a strong advocate and leader in the liberalization of world trade, there is currently no real U.S. trade agenda to speak of. When Barack Obama took office in 2009, his main goal was stabilizing the U.S. economy and pushing his domestic policy agenda: health care reform, financial regulatory overhaul, and climate legislation. Furthermore, given the very pro-active trade agenda of George W. Bush—he signed FTAs with Singapore, Chile, Australia, Morocco, Bahrain, Oman, Colombia, Peru, Panama, and South Korea as well as the Central American countries—Obama needed to distance himself from his predecessor, not least because Democrats are deeply divided on trade and globalization issues and opposed to Bush-style FTAs.⁸ Trade is not a popular issue in the United States.⁹ A 2010 *NBC News/Wall Street Journal* poll showed that 53 percent of Americans believed FTAs with other countries have hurt the United States—up from 46 percent three years ago and 30 percent at the end of 1999—while only 17 percent believed they have helped the country.¹⁰ According to a November 2010 poll by Pew, 55 percent of Americans believe that trade leads to job losses (only 8 percent believe they create jobs) and 45 percent find that trade decreased wages (only 8 percent view that they lead to higher wages).¹¹

Within its first Trade Policy Agenda Report to Congress in 2009, the administration not only opposed the launch of any new FTAs, it also announced to review the Bush-era FTAs with Colombia, Panama, and South Korea, which were still awaiting a vote in Congress, arguing that all three needed to be modified. Furthermore, Obama wanted to “get tough” on enforcing existing commitments at the WTO. The report also called for greater transparency and accountability in trade policy, while addressing the adjustment challenges faced by the American workforce and advancing labor rights and environmental standards abroad.¹² Unlike his predecessor, he did not ask Congress for Trade Promotion Authority (TPA), an instrument indispensable for a proactive trade agenda. TPA, which expired in 2007, allows the President to negotiate trade agreements, which Congress can approve or disapprove but cannot amend or filibuster.

Only after a year in office, on 27 January 2010 in his 2010 State of the Union Address, did President Obama unveil a more precise and assertive trade agenda. The motivation behind this effort was to improve the sluggish economy and to reverse the high unemployment rate. Therefore, the cornerstone of his plan was to double U.S. exports within the next five years in order to create two million jobs. “We have to seek new markets aggressively, just as our competitors are,” he said. “If America sits on the sidelines while other nations sign trade deals, we will lose the chance to create jobs on our shores. But realizing those benefits also means enforcing those agreements so our trading partners play by the rules.”¹³ To achieve this goal, Obama issued an executive order on a National Export Initiative (NEI) in March 2010. The NEI planned to improve advocacy and trade promotion, increase export financing, step up efforts to remove barriers to U.S. exports, get tougher on the enforcement of trade rules, and form an “Export Promotion Cabinet.” In his March 2011 Trade Policy Agenda, Obama announced his plan to implement the three pending FTAs with South Korea, Panama, and Colombia by the end of 2011. A motivating factor was the EU’s conclusion of its own FTA with South Korea.

Subsequently, the administration intensified its FTA negotiations to resolve pending controversies with South Korea (foremost automobile and agriculture trade), Colombia, and Panama (in particular labor issues), thus clearing the way for a vote in Congress. Congress took up the issue after the 2011 summer recess, combining the decision with the reauthorization of the lapsed Trade Adjustment Assistance (TAA) program for displaced workers—a central demand by Democrats. TAA, which provides training and support for American workers who are negatively affected by trade, had expired in early 2011. After the House and Senate had passed versions of the Trade Adjustment Assistance Extension Act of 2011 in July and September 2011, the way was paved for a vote on the three FTAs. Congress passed the trade deals with Korea, Panama, and Colombia on 12 October 2011 with clear majorities in both the House and the Senate. Not only are the agreements the first ratified by Congress since the FTA with Peru in 2007, KORUS FTA is also easily the largest deal for the U.S. since the passage of NAFTA. On the same day, Congress agreed on a final version of the Trade Adjustment Assistance Extension Act.

Meanwhile, the Obama administration also increasingly pushed for a conclusion of the Trans-Pacific Partnership (TPP) with Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, and

Vietnam “with the objective of shaping a high-standard, broad-based regional pact.”¹⁴ The negotiations gained momentum in 2011: Japan applied for participation while Canada and Mexico are contemplating joining the initiative, which is to culminate in an ambitious FTA by the end of 2012.

While the administration also confirmed its support for transatlantic integration, it has, so far, invested little political capital in achieving this goal. Not only is this a project clearly associated with the Bush administration, but Obama also lost interest in the TEC due to little concrete results coupled with endless bickering over poultry trade and the inability of the TEC to resolve this issue, which was framed as a litmus test for the Council. While some observers stated that they saw rejuvenated interest—at least from the USTR’s office—in the issue since early 2011, the timing and location of the EU-U.S. summit and TEC meeting indicates otherwise. For the second time in a row, the meetings took place in Washington—originally they rotated between the U.S. and the EU. If the Europeans want a high-level meeting, they now have to come to Washington to get it. And even so, the meeting was shoe-horned in between President Obama’s trip to Asia, Congressional budget negotiations, Thanksgiving, and the Christmas holidays.

Particularly worrisome is also the current lack of interest in the Doha Round. The administration views the multilateral trade negotiations as useful but not essential as the economic benefits promised are comparatively small—smaller than those produced by NAFTA or the FTA with South Korea.¹⁵ Another problem is that the benefits from such a Doha deal would be unevenly distributed globally with a few countries benefiting, foremost China. The administration therefore opposes a modest package or “Doha light” at the 2011 December Ministerial Meeting, arguing that this would serve the interest of neither the U.S. nor other WTO member countries, and would also undermine the WTO.¹⁶ Rather, it demands much greater market access from the emerging economies such as China, India, and Brazil, than currently on the table—something these countries oppose most strongly.

Transatlantic Cooperation on the Doha Round

In the trade negotiations under the GATT, the U.S. and later—with rising economic power—the EU were the dominant negotiating partners, determining the outcomes, while the emerging market economies remained the so-called “silent majority.” This was still the case in the last GATT round, the so-called Uruguay Round (1986-1994), in which the EU and the U.S. successfully brought the round to a close by negotiating the Blair House Agreement on agriculture in 1992. However, the negotiating context has changed dramatically since the conclusion of the Uruguay Round Agreement. The deal did not only lead to rising opposition and assertiveness by the emerging markets and the developing countries. Opposition to further trade liberalization also emerged in the developed countries while the pro-trade lobby has become increasingly silent.

The start of the Doha Development Round in 2001 was possible only with large compromises; foremost, for the first time in the history of the GATT/WTO, development issues were moved to the center of the negotiations. The power of the emerging market economies was further strengthened in August 2003 with the creation of the G20.¹⁷ The G20

was founded in protest to a meager compromise between then-EU Trade Commissioner Pascal Lamy and the former U.S. Trade Representative (USTR) Robert Zoellick on agriculture. Both partners wanted to repeat the success of the Blair House Agreement to finish the round through a transatlantic deal. In a common press conference shortly before the ministerial conference in Cancun, USTR Zoellick stressed: "Today, we spent time on Doha issues and a series of bilateral issues and the key point I would stress on the Doha issues is the sense of cooperation by the United States and the EU to try and get the Doha agenda done on time and the importance of preparing for the Cancun meeting."¹⁸

However, the G20, under the leadership of China, Brazil, and India, soon made clear that they would no longer tolerate the dominance of the "old" trading powers, the U.S. and EU. As a result, the ministerial conference in Cancun failed despite the U.S.-EU compromise. This new power constellation became even more apparent with the ongoing negotiations. In order to prevent a second failure like the one in Cancun, the EU and the U.S. started informal talks with Brazil, India, and Australia, and later on Japan (G6), to pave the way for a possible agreement. However, since the deadlock of the Doha negotiations in 2008, there is no common EU and U.S. leadership anymore.

Due to President Obama's lack of interest in trade, the position of the U.S. ambassador to the WTO was kept vacant for a long time until Michael Punke was nominated in September 2009. Since then, the U.S. has made no serious effort in bringing the round forward.¹⁹ Robert Zoellick, former USTR, now World Bank President, chided the Obama administration for "dumbing down" the Doha Round, instead of exercising its historical leadership and thinking boldly, allowing the whole discussion to "become very defeatist." He warned that "if U.S. negotiators wait for the U.S. Congress to tell them it's okay to close a deal, they'll wait for a long time," asking Obama's team to step up its efforts in closing the deal.²⁰

At the moment, the WTO members try to reach a mini deal at the upcoming Ministerial Meeting in December in Geneva. The majority of WTO members want to reach an "early harvest," i.e., a Doha light, focused on trade facilitation, reduction in agricultural support, and market access for poorer countries. But this met little enthusiasm on the U.S. side: "we are certainly open to a creative discussion of development issues," even if the prospect of securing an early harvest seemed nil, U.S. Ambassador Punke cautioned.²¹ According to the trade expert Richard Baldwin (2011) there are two reasons for this: 1. tariff leverage and 2. market access. U.S. tariffs are already very low. Reducing them to almost zero, while the emerging powers were allowed to keep much higher tariffs, would minimize future U.S. bargaining power, the administration fears, creating a lasting tariff asymmetry vis-à-vis China and other emerging economies. Doha "will set the terms of trade for decades to come and an agreement that does not reflect twenty-first century realities will contribute neither to the strength of the global trading system nor to the long-term viability of this institution," U.S. Ambassador Punke warned. The second reason for the administration's disinterest in the Doha Round is the small benefit a modest package (Doha light) would generate in terms of market access for U.S. industry and the services sector as Table 1 shows.²²

Table 1: Benefits of a Modest Doha Package²³

	Doha "formula cuts" in NAMA and agriculture		Doha "topped up" reforms in goods, services, and trade facilitation	
	Change in GDP in %	GDP gains in billion dollar	Change in GDP in %	GDP gains in billion dollar
EU	0.1	16.3	0.3	45.6
U.S.	0.1	9.3	0.4	36.2

Deeper Transatlantic Economic Integration

A ZERO TARIFF AGREEMENT (FREE TRADE IN GOODS, TAZA)

While average tariffs are low at 3.5 percent for the U.S. and 5 percent for the EU, over a third of the EU's tariffs on U.S. non-agricultural products are over 5 percent and sometimes as high as 22 percent in transport equipment, 14 percent in electrical machinery and for other manufactures, and 7 percent in chemicals. Approximately 24 percent of EU non-agricultural products when entering the U.S. face tariffs exceeding 5 percent. For some manufactured products applied tariffs peak at 46 percent, for transport equipment at 25 percent, and for electrical machinery at 15 percent.²⁴ The EU and the U.S. spend over \$8 billion on import duties on transatlantic trade in industrial products, a large percentage on intra-firm trade.²⁵

Approximately a third of agricultural tariff lines in transatlantic trade are already zero. Thus, agricultural trade between the U.S. and the EU is relatively free compared to the rest of the world. However, there are high tariffs on individual products. In the U.S., agricultural tariffs can peak as high as 350 percent for beverages and tobacco; 164 percent for oilseeds, fats, and oils; as well as 132 percent for fruits, vegetables, and plants. In the EU, tariffs on agricultural products can be found for animal products (191 percent), dairy products (172 percent), and beverages and tobacco (174 percent).²⁶

The European Centre for International Political Economy (ECIPE), a Brussels-based think-tank, calculated that EU exports to the U.S. could increase by 7 percent (or \$28 billion) in a static scenario and around 18 percent (or \$69 billion) in a dynamic scenario. U.S. exports to the EU could grow by an estimated 8 percent (or \$23 billion) in the static scenario and 17 percent (or \$53 billion) in the dynamic scenario. Calculating possible welfare gains, the study finds that the removal of all remaining tariff barriers could increase EU GDP by 0.01 percent and U.S. GDP by 0.15 percent (static scenario). If improved productivity and reduced trade facilitation costs are taken into account, the EU could realize an increase of GDP by 0.32-0.47 percent (or \$46 to \$69 billion), while the U.S. could gain 0.99-1.33 percent (or \$135 to \$181.9 billion). These benefits derive from eliminating tariffs at a large base and phasing out tariff peaks.²⁷

Regarding liberalization of trade in services, the Dutch firm ECORYS found that a 75 percent reduction of barriers could increase EU (EU-27 minus the Netherlands) GDP by \$10.2 billion and U.S. GDP by \$9.6 billion annually (long-run scenario).²⁸

Table 2: Benefits of Eliminating Tariff Barriers in Transatlantic Trade in Goods²⁹

	Full elimination of tariffs and goods (static scenario)		Full elimination of tariffs and goods (dynamic scenario)	
	Change in GDP in %	GDP gains in billion dollar	Change in GDP in %	GDP gains in billion dollar
EU-25	0.01	1.6	0.47	69.3
U.S.	0.15	20.5	1.33	181,9

Table 3: Benefits of Eliminating Barriers in Services Trade³⁰

	Short Run GDP gains in billion dollar	Long Run GDP gains in billion dollar
EU	6.3	10.2
U.S.	7.0	9.6

Based on these findings, the U.S. Chamber of Commerce pushed for a zero-tariff agreement in 2011. While negotiations on a full FTA, which would aim at eliminating both tariffs and non-tariff barriers, is viewed as too ambitious, promising little scope for fast success, the Chamber proposes to break an FTA into constituent parts, proceeding at different speeds in different areas. These could include an agreement on free trade in goods (TAZA), services (Services FTA), and capital (Bilateral Investment Treaty). The Chamber argues that such an agreement would not endanger the Doha Round. Rather, it could give the WTO and its members the push they need to get on track again as has been the case with other big regional initiatives in the past (e.g., the EU single market and NAFTA).³¹

Despite these potential welfare gains, neither the U.S. nor the EU has seriously pushed for such an agreement so far. In particular the EU fears that such an agreement could divert attention from the sagging Doha Round and give the impression of forming an EU-U.S. fortress, making compromises with emerging economies such as Brazil, India, and China even more difficult. In addition, there is the issue of the design of such an agreement. A zero tariff agreement needs to be preferential in nature, including rules of origin as there would be very little interest in such an agreement if other countries benefited from U.S.-EU trade liberalization without reciprocating. Such a preferential trade agreement, on the other hand, needs not only to meet the criteria of the WTO, but also has to be passed by Congress and the European Parliament. While the fear of being undercut by cheap labor should not be as much of an issue for a U.S.-EU trade deal, a zero-tariff agreement would nonetheless target many sensitive issues, and not all sectors on both sides of the Atlantic will benefit from liberalization. According to the ECORYS study there would be a negative output impact on meats production, some transport equipment, crops, electrical machinery and equipment, and fruits and vegetables for the EU, while in the U.S. a negative output impact could be expected on dairy products, insurance, some machinery and equipment, as well as iron and steel.³²

Furthermore, Congress might be hesitant to push for closer integration with the EU given the economic and political turmoil in the region. Such an agreement could be a hard sale to politicians' constituents as Europe is currently perceived as anything but a promising growth market. For the EU, on the other hand, an agreement focusing exclusively on trade in goods and tariffs would be a serious departure from its current comprehensive approach, covering goods, services, IPR, investment, and other trade plus issues. Many policymakers and analysts believe that the greatest benefits lie in services trade and the removal of non-tariff barriers (NTBs) and that a limited agreement was not worth pursuing.

REMOVING NON-TARIFF BARRIERS TO TRADE

Not only tariffs, but also regulations act as barriers to trade and add additional cost to trading partners. These barriers can be found particularly in standards set for industrial goods, in customs systems (such as registration, documentation, and custom clearance procedures), and in the field of government procurement. The economic harm to transatlantic trade wrought by NTBs is documented in the study "Non-Tariff Measures in EU-U.S. Trade and Investment: An Economic Analysis" that was commissioned by the European Parliament and conducted by ECORYS in 2009. According to this study, EU and U.S. NTBs are particularly prevalent in the sectors of cosmetics, chemicals, and biotechnology, as well as medical equipment and measuring instruments and the aviation industry on both sides of the Atlantic. U.S. agricultural exporters are particularly burdened by EU regulations. For years, the transatlantic partners have fought over EU import restrictions on beef produced with the use of growth-promoting hormones and genetically modified organisms (GMOs).

Removing these barriers promises tremendous welfare gains. According to the aforementioned study, under a long-run ambitious scenario, removing NTBs could translate into an increase in GDP of \$158 billion per year (0.72 percent) for the EU; exports could grow by approximately 2.1 percent. Sector-wise, EU benefits would come mainly from gains in motor vehicles, chemicals, pharmaceuticals, food, and electrical machinery. For the U.S., the benefits from removing non-tariff barriers are estimated to be a \$53 billion per year increase in GDP (0.28 percent of GDP), and approximately a 6.1 percent increase in exports.³³ The U.S. benefits would mainly accrue to the electrical machinery, chemicals, pharmaceuticals, financial services, and insurance sectors. But removing non-tariff barriers would not only reduce costs and boost exports and national income in the EU and United States. A common EU-U.S. approach could also influence standard-setting in third markets, facilitating trade worldwide.³⁴

While the TEC has been tasked with removing these barriers through harmonization, mutual recognition, and joint development of common regulatory standards, progress has been excruciatingly slow. Harmonizing regulations on a sector-by-sector basis has proven almost impossible due to bureaucratic resistance. Only after almost two years of bickering over issues such as chlorine treated chicken, the TEC meeting held in Washington, DC, in December 2010 breathed some new life into the initiative. Below the radar screen of media attention, the U.S. and EU reaffirmed their intent to cooperate in the design of new regulations (upstream regulatory cooperation) in emerging technologies

Table 4: Benefits of Eliminating Non-Tariff Barriers in Transatlantic Trade³⁵

	Ambitious Scenario (short run)		Ambitious Scenario (long run)	
	Change in GDP in %	GDP gains in billion dollar	Change in GDP in %	GDP gains in billion dollar
EU-25	0.27	59.7	0.72	158.0
U.S.	0.13	24.7	0.28	53.0

such as nanotechnology, electric drive vehicles, and related infrastructure. The High Level Regulatory Forum was tasked with continuing work on joint principles and best practices for the development of regulations. Under the Innovation Action Plan, the EU and U.S. agreed to cooperate on the development of innovation policies to encourage productive, growth-enhancing policies, access to raw materials (recycling, substitutes, trade rules, etc.), and the development of eco-friendly products. The transatlantic partners further committed to mutually recognize their authorized economic operators by 31 October 2011 and to deepen cooperation on supply chain security. Under the EU's authorized economic operators' program, AEO, and its U.S. equivalent C-TPAT, certified operators benefit from quicker and simpler customs procedures. In comparison to previous work plans, the 2010 agenda was more specific, setting concrete time frames and deadlines.

In April 2011, the U.S. and EU reached an agreement on a set of non-binding trade-related principles for information and communication technology (ICT) services, including transparency in legislation and regulation; open access to networks and applications; the free flow of information across borders; foreign investment in ICT sectors; facilitating the cross-border supply of services; and granting of operating licenses. In June 2011, the EU and U.S. then announced to sign an agreement on mutual recognition of C-TPAT and AEO at the next TEC meeting in November 2011. Also in June, the High-Level Regulatory Cooperation Forum agreed on a Common Understanding on Regulatory Principles and Best Practices including open and transparent process, cost-benefit analysis, and analysis of alternatives. They also committed to avoiding unnecessary and duplicative requirements; improving existing cooperation mechanisms; and soliciting input from international stakeholders. Last, they wanted to advance common approaches to risk assessment and cost benefit analysis looking especially to future regulation.³⁶

At its sixth meeting in Washington, DC, on 28 November 2011, the TEC reinstated many of the old goals but did not bring the hoped-for push for a new ambitious agenda. The first part of the one-day event was devoted to taking stock of the achievements made so far; the second part was dedicated to identifying new issues going forward. The transatlantic partners tasked a joint High-Level Working Group on Jobs and Growth with identifying and assessing options for strengthening the U.S.-EU trade and investment relationship in those areas with high potential to support jobs and growth. An interim report is to be presented in June 2012, the final report by the end of 2012. Furthermore, the U.S. and the EU agreed to mutually recognize each

other's secure traders C-TPAT and AEO programs. Mutual recognition is to become operational in June 2012. With regard to E-mobility, the transatlantic partners agreed on a new work plan to develop coherent and compatible standards for electric vehicles and smart grids. The TEC further announced to intensify cooperation in key emerging technologies and innovative sectors, such as nanotechnology and cloud computing, in order to avoid the emergence of trade barriers through diverging standards and regulations. The TEC also agreed to work more intensively together to ensure the supply with critical raw materials by developing trade policy strategies to eliminate barriers as well as by working together on research and recycling.³⁷

Many observers are nonetheless disappointed with the TEC and the slow delivery of concrete results to advance economic integration.³⁸ A joint study from ECIPE and the German Marshall Fund of the United States (GMF) concluded: "[...] after four years of TEC one has to ask: has it achieved anything real or concrete? Scratching a bit on the well-polished surface made up by nicely formulated declarations, the weakness and incapacity of the TEC in producing major concrete results appear. This is not to say it has been useless; some good ideas have been shaped by TEC dialogues."³⁹

There are many reasons for slow progress under the TEC: Harmonization or mutual recognition of standards and regulations requires complex legislative changes in an often highly politicized policy environment. Moreover, cooperation demands a high degree of trust in the rule-setting competency of the negotiating partner; as a result of diverging regulatory philosophies and styles this has oftentimes proven difficult to attain. Especially when dealing with issues such as consumer protection or health and food standards, key differences can be found in public preferences and tolerance for risk. Opinions also strongly differ on the role of science in managing risk. While the U.S. system is relatively science-based and prefers to regulate once significant problems have actually emerged, the EU prefers to regulate out of precaution before a problem has occurred. Another obstacle is that regulators are foremost accountable to domestic legislators, which makes them reluctant to transfer authority to a foreign body. Furthermore, political regulatory cycles have not always been in sync on both sides of the Atlantic. While beginning in the 1960s, many U.S. regulatory standards were more comprehensive and stringent than those adopted by the EU, the U.S. engaged in deregulation efforts during most of the 1980s and 1990s—a time when European standards became more stringent and comprehensive. Last, there are severe difficulties in establishing reciprocity in negotiations on NTBs as well as a lack of appropriate methodologies for assessing the adverse impact of regulations on industry.⁴⁰

The Way Ahead

At the APEC meeting in Hawaii in November 2011, the nine TPP negotiating partners (including the U.S.) agreed on the framework for an ambitious free trade agreement to be completed in 2012. While the transpacific trade relationship is thus characterized by a new dynamic and interest especially from the U.S., the transatlantic partnership with the EU lacks any dynamism. Both the Obama administration as well as the U.S. Congress see Europe primarily as an economic problem rather than an opportunity for the U.S. economy. This is unfortunate as both a deepening of transatlantic trade relations and a common agenda for the

Doha Round promises considerable benefits for the U.S. and the EU.

DEEPENING THE TRANSATLANTIC ECONOMY

The declaration of the TEC meeting in Washington from 29 November mentions various old and new initiatives to strengthen and deepen the transatlantic economy. However, none of these projects lives up to the far-reaching goals when the TEC was founded in 2007—apart maybe from the electric vehicles cooperation. Therefore, the TEC needs a more ambitious and political goal. The High-Level Working Group on Jobs and Growth is a first step in the right direction, being co-chaired by high-level members of the Cabinet. However, the chairs will have to put in their political weight and come up with new groundbreaking projects to gain momentum for the transatlantic relationship. This could be the conclusion of a Zero-Tariff Agreement.

Pushing for a Zero-Tariff Agreement: A fresh impetus is urgently needed—particularly as the U.S. focus increasingly shifts to the Pacific region. This impetus could come through a transatlantic zero-tariff agreement. While transatlantic tariffs are already quite low, their elimination would generate considerable welfare gains due to the sheer volume of current EU-U.S. trade, as well as existing tariff peaks for some key products such as transport equipment and chemicals.

Removing NTBs and freeing trade in services: Tariff trade barriers—such as incompatible regulations—are costly obstacles to transatlantic trade and the basis of many heated transatlantic trade disputes. Removing these barriers promises tremendous welfare gains—even if this is a long-term project and quick results should not be expected.

Europe and the United States remain the only actors that can take leadership for world trade (at least as long as China is not willing to do so), despite the changes in the world economy in the past decades. Without their combined efforts, the Doha Round is bound to die.

“Early Harvest” with built in follow-up: As an ambitious Doha Round is currently far out of reach, the transatlantic partners should take what is already on the table, i.e., trade facilitation, reduction in agricultural support, and market access for poorer countries, building into the agreement a mechanism for continued negotiations down the road in 2012 and beyond. It is true that such an “Early Harvest” would bring few economic benefits for the U.S. and the EU, and gains would be distributed quite unevenly worldwide. That said, it would restore some of the WTO’s credibility and free the way to a long overdue governance reform in that institution. The lack of even a small compromise, on the other hand, could endanger the credibility of the WTO and the authority of the dispute settlement system.

Allowing for plurilateral and sectoral agreements under the WTO for new trade issues: As not all countries will be willing to go at the same speed, the U.S. and the EU should push for a softening of the Single Undertaking approach (nothing is concluded before everything is agreed upon), allowing for plurilateral agreements on issues such as investment, government procurement, and competition and sectoral agreements for greater liberalization in, for example, environmental goods and services, while also expanding the product coverage in existing sectoral agreements such as the Information Technology Agreement (ITA). In order to encourage the emerging economies to consent to this approach, the transatlantic partners need to offer something in return—the key is reducing subsidies and improving market access for agricultural products.

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