TRANSATLANTIC POLICY IMPACTS OF THE U.S.-EU TRADE CONFLICT

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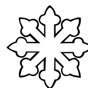

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TRANSATLANTIC POLICY IMPACTS OF THE U.S.-EU TRADE CONFLICT

Wednesday, June 26, 2019

House of Representatives

Subcommittee on Europe, Eurasia, Energy, and the Environment

Committee on Foreign Affairs

Washington, DC

The subcommittee met, pursuant to notice, at 3:13 p.m., in room 2172 Rayburn House Office Building, Hon. William Keating (chairman of the subcommittee) presiding.

Mr. KEATING. The hearing will come to order. We want to thank the witnesses for their patience. I will not thank you too much so we can get right to the hearing. You know, these roll calls are a democratic necessity, so here we go.

We are meeting today to hear testimony on the transatlantic impacts of trade disputes between the United States and the European Union. Without objection, all members will have 5 days to submit statements, questions, extraneous materials for the record, subject to the length limitation in the rules.

I will now make an opening statement and turn it over to the ranking member for his opening statement and officially start this part of the hearing.

I would like to welcome you to the hearing today to discuss our trade policy toward Europe. I have been monitoring the positive and lately negative developments in our trade relationship with Europe for some time now, along with many of our members. That is because I am a big believer in what we can accomplish together as part of our transatlantic alliance and that we also seize on our collective economic strength.

Together the EU and the U.S. represent nearly half the world's GDP. We are each other's largest trading partner. We have the leading services in terms of service economy globally, and we represent well over half the global foreign direct investments.

We represent a formidable economic base that should be leading the world towards a better economic opportunity for families in our communities back home, for greater prosperity, for people in developing countries and in new democracies, and for fairer trade rules for our businesses to compete on an even playing field.

Regrettably, instead of continuing negotiations with the EU toward a trade investment agreement, the President withdrew from the talks that were ongoing and pursued a hardline strategy of imposing tariffs on our allies that added insult to injury by invoking national security as a justification for imposing them, as if we were vulnerable to a national security threat from our ally because they sell us steel and aluminum.

There are, as there have been for a long time, many real trade issues to figure out in our relationship with the EU. That is why we are negotiating an agreement with the EU and we have been doing so back since 2016 and that is why we are again negotiating. The only way out of this mess is to negotiate a trade agreement, except this time around businesses are teetering on the edge of closure as these tariffs continue. This tariff policy completely ignores how integrated our supply chains have become. It is not some foreign government footing the bill for these tariffs either. It is our businesses and our consumers. It is especially small and medium size businesses who bear the brunt of it because they do not have an in-house trade compliance field of experts that our larger corporations have. They chose the safe route trading with our allies who share our values, who share our business practices, and now they are paying for it.

I hear from so many businesses back home, veteran-owned businesses, small manufacturing companies, farmers. Our cranberry industry was threatened by this as well. They are, and I really mean this, desperately trying to navigate the complex world of tariffs, exclusion from these tariffs, regulatory agencies, and higher costs. So many are panicked about going out of business altogether. I have talked to them. They worry about forfeiting their market shares to companies in other countries that have not pursued such a reckless path of tariffs as we have.

So we are negotiating again with the EU, but in reality, we are back to square one, except now, every day, middle class Americans are footing the bill. We have missed out on two and a half years when we could have been increasing our collective economic strength to compete with China which is the only way we are going to be successful in countering Chinese practices through coordinated trade practices, constructed on shared values that reflect fair wages, safe working conditions, respect for intellectual property, rule of law, and environmental responsibilities, but with unnecessarily taking shots at our allies when we should be working with them more closely, more closely than ever before to confront deeply serious threats around the world. It does not strengthen our hand in the face of adversaries like Russia and China to drive unnecessary wedges between us and our allies.

So I am pleased to be holding this hearing today so that we can hear from this expert panel on these issues. We have to hear you today and learn why these issues are so important, why there is a sense of urgency to negotiate a resolution to this trade dispute with the EU and what steps we can take going forward to get back to a place where our transatlantic economic relationship is a stronger component of our overall alliance. It is critical for our business back home. It is critical for our own economy. It is critical for projecting strength abroad and pushing back against our adversaries. And frankly, it is just common sense.

So with that, I would like to thank the witnesses for being here and I turn it over to the ranking member for his opening statement.

Mr. KINZINGER. Well, I thank the chairman and thank you all for being here and being patient with us. We mentioned with the votes.

I believe in free and fair trade and I believe that free trade increases global security while creating jobs here in the United States, those of which are net positives. For that reason, it is important to support policies that encourages global trade, open new markets, break down barriers in existing markets, and establish rules that are fair to all participants. I want to stress fair because that is where the main issue is.

Countries around the world, including some of our closest allies, have taken advantage of the United States' willingness to engage in free trade. They put up barriers, especially giving their workers an unfair advantage over American workers. Europe displays unbalanced favoritism to its manufacturing sector, while European companies are typically allowed to bid on certain U.S. Government contracts, U.S. manufacturers are generally not offered the same opportunities.

Further compounding this issue are their subsidies for their supply base in the form of a VAT, VAT tax rebates, and other indirect measures. In response to these wrongs, President Trump took action by using a Section 232 authority to place tariffs on steel and aluminum. I recognize and share the President's interest in protecting American workers, innovation, and business from unfair trading practices. Allowing a country like China to continue to steal American innovations and inventions not only puts our economy at risk, but also our national security.

However, I do not believe that aluminum and steel imported from Europe poses a national security threat to our Nation. Any tariffs imposed should be tailored to address individual irregularities caused by biased trade practices.

Trade between the United States and Europe accounts for nearly half of the global GDP. We are not talking about tariffs amounting to pennies on the dollar or rounding errors. Any major disruption in the transatlantic economy would be devastating to the world. We must reduce the barriers put up by both American and European leaders in the past to increase competition and further attract the world's best talent to the West.

In my district, the 16th District in Illinois, we are a hub for manufacturing and agriculture. In fact, Illinois ranks third in the Nation for the export of ag commodities with over $8 billion dollars' worth of goods going overseas. And much of that comes from my district.

I have heard from many industries affected by our trade dispute with the EU. While the bottom line is being hurt, they understand that unfair trade practices placed against American industry hurts them more in the long run. They, like, me are hopeful we can come to a quick and equitable resolution to stand united against the main aggressor which is China.

The so-called 16+1 Initiative between China and many Eastern and Central European nations have Beijing offering developmental projects in exchange for increased cooperation. China has executed over 350 mergers, investments, and joint ventures across Europe. In many cases, they can access critical information about how these systems work or even steal sensitive intellectual property. More than half of China's investment in Europe is in the largest econ-

omy, Germany, the U.K., France, and Italy. What concerns me though is that these are linchpins in our NATO alliance.

China has now passed the U.S. as Germany's largest trading partner and they are closing the gap for Europe as a whole. We have seen the Chinese invest over $70 billion in the United Kingdom, trying to get a foot in the door and any anticipation of a Brexit deal that sees the Brits leaving the EU.

Trade tension between the United States and Europe do not signal the end of the transatlantic partnership. Our bond is strong, forged by years of partnership and battling common threats which have developed our shared values. We will not always be 100 percent in agreement with the EU, but we will always work together to ensure that our people are taken care of and the world is a safer place for the next generation. I cannot stress enough the need for the United States and the EU to solve our differences quickly in order to develop a transatlantic strategy to counter Chinese-maligned influence and trade practices before it is too late.

And with that, Mr. Chairman, I look forward to the conversation and I yield back.

Mr. KEATING. Thank you, ranking member. I will now introduce our witnesses briefly.

Dr. Daniel Hamilton is the Austrian Marshall Plan Foundation Professor at Johns Hopkins University School for Advanced International Studies and a former Deputy Assistant Secretary of State for European Affairs.

Ms. Marjorie Chorlins is Vice President for European Affairs at U.S. Chamber of Commerce and Executive Director of the U.S.-U.K. Business Council. She is the former Principal Deputy Assistant Secretary for Import Administration at the Department of Commerce and we thank you also for submitting your documents. Members will look at it as a State-by-State breakdown of the effects of this.

Dr. Chad Bown is a Reginald Jones Senior Fellow at the Peterson Institute for International Economics and a former Senior Economist for International Trade and Investment at the White House on the Council of Economic Advisors.

Dr. Theodore Bromund is a Senior Research Fellow in Anglo-American Relations for the Margaret Thatcher Center for Freedom at the Heritage Foundation.

We appreciate all of you being here today and look forward to your testimony. Please limit your testimony to 5 minutes and without objection your prepared written statements will be made part of the record.

I will now go to Dr. Hamilton for his statement.

STATEMENT OF DANIEL S. HAMILTON, AUSTRIAN PLAN FOUNDATION PROFESSOR, JOHNS HOPKINS UNIVERSITY SCHOOL OF ADVANCED INTERNATIONAL STUDIES

Mr. HAMILTON. Thank you, Mr. Chairman. I would like to submit this testimony for the record and I have an appendix which also does State-by-State breakdown which I would like to add to that.

Mr. KEATING. With no objection, so added.

Mr. HAMILTON. Thank you. Thank you for the opportunity to speak with you today about how U.S.-EU disputes over trade and

other issues are affecting U.S. foreign policy and broader economic relations.

If we look at the kinds of tensions we are facing right now across the Atlantic, there are three kinds of costs that we have to think about. One are direct costs. As both you and the ranking member have mentioned, we are facing steel and aluminum tariffs which directly affect those industries on both sides of Atlantic because of the dense commercial inter-linkages that bind the U.S. and Europe together.

The car industry is facing potentially 25 percent tariffs that the U.S. might impose on the European car industry which will ricochet back into the American market. And it is really always important to understand this dense inter-linkage of the transatlantic economic space. To take the car industry, for example, European companies directly support 173,000 U.S. jobs here because of their investment. If one considers indirect effects on hobs, including down stream suppliers, distributors and other related companies, European companies support 420,000 U.S. jobs. About a quarter of the U.S. production in the auto industry is by European companies in the United States, contributing about $34 billion to U.S. GDP; many of those are U.S. exports. So 60 percent of the cars produced by European companies in the United States are made in the U.S.A. and they are exported to the rest of the world. So the U.S. is their platform for that.

And one of the features of the U.S. auto industry is its innovation capacity. So European companies invest a lot in innovation in the United States through the auto industry, about $5.5 billion in R&D that they bring to the U.S. economy. The auto trade is about 10 percent of transatlantic trade, so if that goes south, that is a big chunk of our relationship.

And Europe is also, of course, a big customer for American cars. About 20 percent of U.S. car exports go to Europe. So that is a direct cost if we would go down this road of a potential trade war.

That is just one example of how a particular industry would be affected.

But there are many indirect and spillover costs because of the distinctive nature of the U.S.-European economy. Again, we are so deeply linked, not only by trade but by these investment flows that are really the driver of the transatlantic economy rather than trade. Trade follows investment, not the other way around.

And so what is happening now is because of these tensions, you can see in the numbers that this is starting to chill investment coming into the United States from Europe. Investors do not quite know should they invest right now. And because Europe is by far the largest investor in the United States in the world, about 68 percent of the $4 trillion in foreign capital that comes to the United States comes from Europe. And Europeans account for 76 percent of the world's investment in the U.S. manufacturing industry, so really nobody else is really investing in U.S. manufacturing except the Europeans and then they produce here and as they export from here as U.S.-manufactured exports.

And of course, they are the largest supplier of on-shored jobs in America. We estimate that up to 16 million jobs on both sides of

the Atlantic are reliant on healthy commercial intracton between the United States and Europe.

One needs to understand this deep inter-linkage between the investment and the trade. European investment is diverse. It is in all the 50 States. The data we provide to you as the addenddom to the testimony shows that. It generates income and jobs for U.S. workers, sales for local suppliers and businesses, extra revenues for local communities through taxes, a lot of capital investment, and R&D as I mentioned.

I see Congressman Wilson is here. My example I always use is BMW. And it just shows you, the story just tells you all you need to know. So BMW in Munich has built this plant in Spartanburg which is now bigger than its plant in Munich. Yes. And what they do is they produce the engines and front bumper assemblies in Munich and then they send them to Spartanburg to assemble the final car. And then they export to the rest of the world, making BMW actually the No. 1 U.S. car exporter by value. But what happens? You take the engine from Munich. You send it to the United States. You pay a 2.5 percent tariff to put it in Spartanburg. You export it back to Europe. You pay another 10 percent tariff to get it back to Europe and then if we add another 25 percent, it is just not making a whole lot of sense to the people of Spartanburg. It is not about the Europeans. It is about the people in Spartanburg.

So rather than imposing additional tariffs, we should be dismantling all of them. That is the premise of the negotiations that could start if we get going, between the U.S. and EU. And the key is to keep the investment flowing because that is actually what is driving all of this. The trade is sort of just on the top of the investment. So if you shut it down, you are shutting down jobs, innovation, and Spartanburg and the whole region, and the whole distribution channels that flow past Spartanburg. I have many examples in the State of Massachusetts and others.

The last costs I just want to mention are opportunity costs because what is happening is we are missing opportunities for more jobs and growth across the Atlantic by fighting each other instead of looking at the bigger picture. I think both of you have mentioned how important that relationship is.

The fact that we are squabbling about these tariffs overshadows the really important fact that actually the United States and the EU agree on what to do about China. We agree that China has a problem. Europeans agree with us about China's assault on intellectual property, on forced technology transfer, and all the things that we are having trouble with the Chinese. Unfortunately, instead of joining forces we are distracted and divided by our own squabbles over tariffs. So we are not harnessing the leverage we could have to get China into compliance with WTO norms and other aspects of the rules-based order. This is a significant opportunity cost we are missing out on.

[The prepared statement of Mr. Hamilton follows:]

Transatlantic Policy Impacts of the U.S.-EU Trade Conflict

Testimony by
Dr. Daniel S. Hamilton
Austrian Marshall Plan Foundation Professor
Senior Fellow, Foreign Policy Institute
Johns Hopkins University SAIS

Hearing by the
Subcommittee on Europe, Eurasia, Energy and the Environment
of the
Committee on Foreign Affairs
U.S. House of Representatives
June 26, 2019

Distinguished Members of the Committee,

Thank you for the opportunity to speak with you today about how U.S-European Union (EU) disputes over trade issues are affecting U.S. foreign policy and broader transatlantic economic relations.

Political volatility and economic uncertainty are testing the resilience and strength of the transatlantic economy – still the world's most significant commercial artery in the world and the one most important to both the United States and to Europe.

Trade tensions between the Trump Administration and the EU were coming to a boil until President Trump and European Commission President Jean-Claude Junker declared a "truce" in July 2018. While the two sides have agreed to re-launch bilateral trade negotiations, they have yet to agree on a common agenda, and each has very different goals in mind.

The Trump Administration is adamant about including agriculture in the negotiations, which the EU resists. It is trying to "cherry-pick" isolated wins without engaging in an ambitious effort such as the Transatlantic Trade and Investment Initiative (TTIP), which the Administration put in the deep freeze. If current talks stall, the Administration still holds open the possibility of invoking section 232 of the Trade Expansion Act of 1962 to move ahead with 25% tariffs on EU cars and auto parts – the same national security grounds the White House used to impose levies on foreign steel and aluminum, which prompted the EU to retaliate with duties on U.S. goods. U.S. auto-related tariffs would further inflame tensions, given that EU automotive exports to the United States are about 10 times greater in value than EU steel and aluminum exports combined. German companies, including their U.S.-based affiliates, would be the biggest losers: Germany alone accounts for 60% of Europe's $45 billion in annual exports of cars and parts to the United States. Germany is the largest European customer for 18 different U.S. states and the largest European goods supplier for 33 U.S. states.

The EU, in turn, is keen to include government procurement in the negotiations, which the Trump Administration resists. The EU wants to eliminate transatlantic tariffs on industrial goods and automobiles that President Trump is fighting to protect. The European Commission's approach is what I would call "rope-a-dope:" it wants to prolong the match so it can make it to the end of its term this fall without a trade war. President Trump has pledged not to impose auto duties as long as talks continue in good faith. But prospects of a quick agreement are slim. The EU tariff on imported cars is well above the comparable U.S. tariff (10% versus 2.5%). Extracting concessions from the EU without significant U.S. concessions in return

will be difficult, especially if the U.S. refuses to include its 25% truck tariff (the U.S. might consider phasing out this tariff over 30 years as done in the United States–Korea Free Trade Agreement (KORUS) rewrite).

Consequences of U.S.-EU Frictions

If the Trump Administration imposes Section 232 tariffs on European cars, the EU will end the negotiations and impose tariffs in response, as it did with steel and aluminum, by identifying products that are politically sensitive in the United States, but which are readily substituted in the EU, in order to minimize any negative effects for European firms and consumers. The EU says retaliatory tariffs on imports from the United States would be worth about $23 billion. They would likely include U.S. agricultural exports, autos, chemicals and a host of manufactured goods, as well as services and public procurement contracts. Brussels would likely become more protectionist in a series of services activities. In addition, the EU's "rebalancing" tariffs on steel and aluminum were only about a third of the estimated value of the U.S. steel tariffs, so there is room for a more robust response in that area as well, without seeming to be disproportionate.

Not only would the economic scale of such a dispute be significantly greater than the irritation caused by the tariffs currently in place, a transatlantic trade dispute could easily spill over into national security issues, possibly damaging NATO and the broader transatlantic alliance.

A trade skirmish with the EU could spill over into a variety of other political actions. It would reduce to virtually zero EU political disposition to engage constructively with the United States on U.S. "asks" on seemingly unrelated issues. For instance, the EU could declare U.S. companies to be out of compliance with the EU-US Privacy Shield, ratchet up scrutiny of U.S. digital company activities, or consider other seemingly unrelated measures. Another example is the announcement of future visa requirements for U.S. citizens, starting in 2021. While this is a long-standing issue related to lack of compliance of some EU states such as Poland and Romania not meeting U.S. minimums when it comes to visa holders actually returning to their countries of origin, the fact that the EU decided now to demonstrate a bloc-wide approach to the issue and impose reciprocal visa requirements on U.S. citizens is a sign that the political mood for accommodation is evaporating.

Another negative ripple could affect the energy relationship that is now budding across the Atlantic. U.S. energy exports to Europe have jumped dramatically, and the United States is primed to ship more energy to Europe for both economic and strategic reasons. Auto tariffs would dampen European enthusiasm for expanding its energy relationship with a partner upon which it would not feel it could rely.

A trade skirmish with the U.S. would also likely accelerate EU efforts to move ahead with free trade agreements with other nations and regions of the world, boxing the United States out of various markets in some cases. The EU has already been successful on this front, including deals with Japan, Mexico and others, and would likely seek to finalize arrangements with MERCOSUR, the African Union and other regional groupings in Asia.

Moreover, these tensions are unfolding in the context of a slowdown in global growth. Prospects of a global recession remain minimal: the Big Three – the United States, China and the European Union – are all expected to post positive real GDP growth this year, although growth rates will be down from the prior year. The key worry is not the economics associated with what could be a modest cyclical slowdown, but political instabilities that could confound efforts to manage a downturn.

The Trump team's primary target is China, not Europe. Yet Europe has not been able to escape the negative shocks from simmering U.S.-China trade disputes. One consequence of U.S. imposition of steel tariffs, for

instance, was to divert steel from China and other countries to Europe, forcing the EU to impose its own set of restrictions.

Opportunity Costs

Not only is a U.S-EU trade skirmish likely to result in direct costs to American workers, farmers, taxpayers, consumers and companies who are reliant on healthy transatlantic commerce, it is also likely to generate opportunity costs in terms of possibilities missed to promote jobs and growth across the Atlantic, and to position the U.S. and European economies for 21st century challenges.

U.S.-EU tensions have tended to overshadow an important fact: the EU shares many U.S. frustrations with Chinese cybertheft, its assaults on intellectual property, forced technology transfers, poor implementation of its World Trade Organization (WTO) obligations, and its state-subsidized overcapacity in steel and potentially autos, robotics and other sectors of the economy. The EU also shares U.S. concerns about severe Chinese restrictions on investment by U.S., European and other non-Chinese companies in modern services, energy, agriculture and high-tech sectors. Together the U.S. and the EU are wary of growing investments by state-owned Chinese firms in Europe and the United States. Brussels has joined Washington and Tokyo in trilateral talks focused on the commercial challenges posed by China. Yet current U.S.-EU trade tensions have stopped the U.S. and the EU from harnessing their impressive joint leverage to persuade China to adjust its policies. More contentious U.S.-EU trade disputes would probably dash any prospect for U.S.-EU cooperation on China 5G and the case against Huawei.

Moreover, the world that created the original transatlantic partnership is fading fast. Each side of the Atlantic is facing daunting economic challenges at home and abroad. A prominent driver guiding the U.S. and the EU to initiate the TTIP was the realization that they needed to act more urgently to open transatlantic markets in ways that could position each partner, and both together, to succeed in a world of diffuse economic power and intensified global competition. The addition of four billion people to the globalized economy and the rise of other powers, together with recent Western economic turmoil, convinced U.S. and European decision-makers that the window of opportunity may be closing on their ability to maintain high labor, consumer, health, safety and environmental standards and to advance key norms of the liberal rules-based order unless they act more effectively together. That looming reality is even more likely today than it was some years ago. Yet we are dithering and distracted.

Perhaps the greatest long-term consequence of U.S.-EU trade conflict is that by squabbling with each other, instead of turning joint attention to these 21st century challenges, the United States and Europe are squandering the opportunity to maintain their position as rule-makers, and face the growing prospect that they could each become rule-takers in a world increasingly inhospitable to the basic rules-based mechanisms guiding the global economy from which both have profited so enormously.

America's Stake in Healthy Transatlantic Commerce[1]

A trade skirmish between the United States and the European Union could cause significant damage to jobs, investment, trade and the innovative capacity of both economies because of the dense interlocking nature of their commercial linkages. It could generate significant dislocation and disruption in many different U.S. states by affecting jobs, trade, investment and innovation.

[1] All figures and references are drawn from Daniel S. Hamilton and Joseph P. Quinlan, *The Transatlantic Economy 2019: Annual Survey of Jobs, Trade and Investment between the United States and Europe* (Washington, DC: Foreign Policy Institute, Johns Hopkins University SAIS, 2019).

The United States and Europe are each other's most important foreign market in the world -- notwithstanding the rise of many emerging countries, including China.

The transatlantic economy generates $5.5 trillion in total commercial sales a year and employs up to 16 million workers in mutually "onshored" jobs on both sides of the Atlantic. It is the largest and wealthiest market in the world, accounting for one-third of world GDP in terms of purchasing power and half of total global personal consumption.

Ties are particular thick in foreign direct investment (FDI), portfolio investment, banking claims, trade and affiliate sales in goods and services, mutual R&D investment, patent cooperation, technology flows, and sales of knowledge-intensive services.

The U.S.-EU partnership continues to drive global trade, investment and capital flows. Total sales of U.S.-based European companies and European-based U.S. companies are roughly double total sales between the U.S. and the Asia-Pacific region, over four times those with North American partners Canada and Mexico, and five times more than with South America, Central America and the Caribbean.

Moreover, for many U.S. and European companies, the transatlantic economy is the geo-economic base from which they can engage successfully in other parts of the world. The United States serves as a global export platform for many European car companies, for instance. U.S. services companies, in turn, use the scale offered by their dense investment linkages across the transatlantic economy to be globally competitive when it comes to offering services in other parts of the world.

Not by Trade Alone

Transatlantic trade still stands as the largest such relationship in the world, even when compared to America's trade ties with China. U.S. merchandise exports to Europe are over 2.5 times greater than U.S. exports to China. 45 of the 50 U.S. states exported more to Europe than China in 2017. California, Texas, Michigan, Illinois and Ohio each exported more than twice as many goods to Europe as to China. New York's exports to Europe were more than eight times those to China. Only the Pacific-oriented states of Alaska, Hawaii, New Mexico, Oregon and Washington sent more goods to China than Europe in 2017.

In addition, while the figures are significant, they actually underestimate Europe's importance as an export destination for U.S. states because they do not include U.S. state exports of services. This is an additional source of jobs and incomes for U.S. workers, with most U.S. jobs tied to services. Europe is by far the most important market in the world for U.S. services, and the U. S. consistently records a service trade surplus with Europe. Suffice it to say that if services exports were added to goods exports by state, the European market becomes even more important for individual states.

By destination, key markets in Europe for U.S. states include Germany, the United Kingdom, and the Netherlands. Germany is the most important European customer for 18 different U.S. states; The UK is the biggest European customer for 14 U.S. states, followed by Belgium for 5 states, and France and the Netherlands each for 4 states.

America's merchandise trade deficit with the EU reached an estimated $168 billion in 2018, a record high and a thorn in the side of a Trump Administration fixated on bilateral trade deficits. America's deficit with China was larger (estimated at $417 billion), although that will provide little ballast to U.S.-Europe trade negotiations.

America's expanding trade deficit with Europe will remain a constant source of tension between the two parties again this year. Yet it is a bad guide for policy.

There is a widespread tendency in political circles, by the media, among the broader public, and even by some in the business community to equate international commerce with trade in goods. By this reckoning, surpluses in goods trade are "good" and deficits are "bad." Yet trade deficits can arise due to factors other than trade, such as differing domestic growth, consumption or savings rates among countries. Equally important is a simple fact: trade in goods, as even trade itself, is a misleading benchmark of international commerce. This is especially true when it comes to the transatlantic economy.

The broad-based nature of U.S.-European commercial ties cannot be understood by looking at merchandise trade figures alone. While some may associate the EU's large trade surplus in goods with the United States as a key competitive advantage for Europe, there are several other modes through which global companies reach consumers. These include services trade broadly, as well as digitally-deliverable services in particular – both key U.S. strengths. U.S. companies also deliver goods and services to Europeans through U.S. affiliates operating in Europe. They also generate so-called "primary income" from their foreign affiliate earnings as well as from investment income earned in Europe.

Taking all of these factors into consideration leads to a more balanced view of transatlantic commerce. While the United States does run a large deficit in goods with the EU (-$153 billion in 2017), the U.S. surplus in services trade (+$51 billion) and primary income (+$108 billion) with the EU more than offsets the goods imbalance. U.S. primary income receipts from the EU were almost $400 billion in 2017, versus EU-based companies' profits and investment income of just $288 billion in the United States.

Investment Leads, Trade Follows

These figures underscore an essential point to understand the enduring strength and importance of the transatlantic economy: investment, not trade, drives U.S.-EU commercial relations. Europe invests more in the United States than do investors from any other part of the world. The U.S. also invests more in Europe than in all the other countries of the world combined. Mutual investment in the North Atlantic space is very large, dwarfs trade and has become essential to U.S. and European jobs and prosperity.

U.S. affiliates in Europe and European affiliates in the United States are among the largest and most advanced economic forces in the world. Their total output – nearly $1.3 trillion – was larger than the output of such countries as the Netherlands, Turkey or Indonesia. European-based affiliates of U.S. companies accounted for over half the output of U.S. affiliates worldwide, and more than double affiliate output in the entire Asia-Pacific region ($329 billion).

U.S.-based affiliates of European companies, meanwhile, accounted for nearly two-thirds of the roughly $911 billion that U.S. affiliates of foreign multinationals contributed overall to U.S. aggregate production.

For 2017 we estimate that U.S. foreign assets in Europe reached $16 trillion, close to 60% of the global total. America's asset base in Germany ($811 billion in 2016) was more than a quarter larger than its asset base in all of South America. America's asset base in Poland, the Czech Republic and Hungary (roughly $144 billion) was on par with Corporate America's assets in India ($141 billion). America's assets in tiny Ireland ($1.4 trillion) were light years ahead of those in China ($404 billion).

Europe's stakes in the United States also significant: total assets of European affiliates in the United States were valued at roughly $7.7 trillion in 2016, accounting for nearly 60% of all foreign-owned assets in the United States. Europe accounted for 68% of the total $4.0 trillion of foreign capital sunk in the United

States as of 2017. Total European stock in the United States of $2.7 trillion was four times the level of comparable investment from Asia. Europe is by far the largest source of foreign direct investment in America's manufacturing industry, accounting for 76% of the total. We estimate that Europe accounted for 60% ($136 billion) of the total $226 billion worth of global foreign direct investment flowing into the United States in 2018.

Here's another example of why a myopic focus on trade deficits in goods is so damaging to the American economy. In 2017 U.S.-based European companies recorded $2.5 trillion in sales – more than triple U.S. imports from Europe. European companies prefer to invest, produce, create jobs and sell in the United States rather than send goods across the ocean. American companies do the same: in 2017 European-based U.S. companies recorded $3 trillion in sales – more than total global U.S. exports of $2.4 trillion. Commercial conflict between the U.S. and Europe could chill European taste for investments in the United States, dimming prospects for local U.S. communities reliant on such inflows of money and innovation.

Investment and trade can be mutually reinforcing. Ireland – not Mexico or China -- is the number one export platform for U.S. affiliates in the entire world, reflecting the country's attraction as a strategic beachhead for U.S. companies hoping to penetrate the larger European market. The UK still plays an important role for U.S. companies as an export platform to the rest of Europe. The exports of U.S. firms based in the UK to the rest of Europe are greater than the exports of U.S. firms based in China to the rest of the world.

Jobs, Jobs, Jobs

These investments are a major reason why most foreigners who work for European companies in the world are Americans, and why most foreigners who work for American companies in the world are Europeans. Roughly two-thirds of all Americans who work for a foreign company in the United States work for European companies. On average these U.S. workers receive higher pay and better benefits than those working for domestic companies.

In 2017 we estimate that U.S. affiliates based in Europe directly employed about 4.81 million European workers, and European affiliates based in the United States directly employed about 4.59 million Americans. These figures understate the employment effects of mutual investment flows, since these numbers are limited to direct employment, and do not account for indirect employment effects on nonequity arrangements such as strategic alliances, joint ventures, and other deals. Moreover, foreign employment figures do not include jobs supported by transatlantic trade flows.

In sum, we estimate that the transatlantic workforce numbers some 14-16 million workers.

European firms can be found in all 50 states, and in all economic sectors – manufacturing and services alike. Given mounting labor shortages in the United States, many European affiliates have taken the lead in job training in the U.S., and have emerged as strong advocates and funders of vocational training.

Figures for jobs, trade and investment coming from Europe into each of the 50 U.S. states is available in our latest report, *The Transatlantic Economy 2019*, available at https://transatlanticrelations.org/wp-content/uploads/2019/03/TE2019_A_StateProfiles.pdf

As mentioned above, European employment is relatively diverse and spread across many U.S. states. The more European firms embed in local communities around the nation, the more they tend to generate jobs and income for U.S. workers, greater sales for local suppliers and businesses, extra revenues for local communities, and more capital investment and R&D expenditures for the United States.

Transatlantic Services

The United States and Europe are the largest services economies in the world. They are each other's largest services market, and dense transatlantic services linkages mean that the transatlantic services economy is also the geo-economic base for the global competitiveness of U.S. and European services companies.

Transatlantic ties in services – both in trade and investment – are quite large and have become even more intertwined over the past decade. Transatlantic linkages continue to deepen in insurance, education, telecommunications, transport, utilities, advertising, computer and business services.

Europe accounted for 37% of total U.S. services exports and for 43% of total U.S. services imports in 2017. Four out of the top ten export markets for U.S. services in 2017 were in Europe.

Like with goods, trade figures, while significant, do not do full justice to the importance of the transatlantic services economy. Like goods, U.S. firms primarily deliver services in Europe (and vice versa) via their foreign affiliates rather than by trade. Transatlantic foreign affiliate sales of services are much deeper and thicker than traditional trade figures suggest. Indeed, sales of affiliates have exploded on both sides of the Atlantic over the past few decades thanks to falling communication costs and the rise of the digital economy. Sales of services of U.S. foreign affiliates in Europe in 2017 totaled $802 billion and have risen by more than 30% since 2009. U.S. services exports to Europe for the same year were $298 billion, well below sales of affiliates. On a global basis, Europe accounted for roughly 53% of total U.S. affiliate service sales.

In 2016, European affiliate services sales in the United States totaled $561 billion. European affiliates are the key provider of affiliate services in the United States, accounting for 56% of total foreign affiliate sales of services in the U.S. of $995 billion in 2016.

In the end, the U.S. and Europe each owe a good part of their competitive position in services globally to deep transatlantic connections in services industries provided by mutual investment flows. A good share of U.S. services exports to the world are generated by European companies based in the United States, just as a good share of European services exports to the world are generated by U.S. companies based in Europe.

Innovation Economies

The United States and Europe remain primary drivers of global R&D. Bilateral U.S.-EU flows in R&D are the most intense between any two international partners. In 2016, R&D spending by European companies based in the U.S. spent $44 billion on R&D, accounting for 73% of total foreign R&D spending in the United States, fueling America's innovation economy. U.S. affiliates spent $31.3 billion on research and development in Europe. Europe accounted for roughly 58% of total U.S. global R&D.

The transatlantic economy is the geo-economic base for the global competitiveness of many U.S. and European companies. About 60% of European exports to the United States consist of trade within the company, such as when BMW or Siemens of Germany sends parts to BMW of South Carolina or Siemens of North Carolina, or when Lafarge or Michelin send intermediate components to their Midwest plants. Those components are then often assembled into final products that are then exported from the United States to the rest of the world. U.S.-based affiliates of European companies accounted for over half of U.S. exports by foreign affiliates in 2016. In the end, the more European affiliates export from the United States, the higher the number of jobs for U.S. workers and the greater the U.S. export figures. For this reason, efforts to restrict investments or impose trade tariffs on these dense transatlantic linkages threaten to damage U.S. exports and diminish America's attractiveness as a destination for investment from Europe -- its prime trade and investment partner and its primary source of "onshored" jobs.

The Transatlantic Economy: The Hub of Digital Globalization

Another key to understanding America's stakes in healthy transatlantic commerce is to realize that the transatlantic economy is the fulcrum of global digital connectivity. North America and Europe generate approximately 75% of digital content for internet users worldwide. U.S. and European cities (Frankfurt, London, Amsterdam, Paris, Stockholm, Miami, New York, Marseille, Los Angeles, San Francisco) represent the world's foremost hubs for international communication and data exchange. Europe is the major market in the world for U.S. digital goods and services. According to McKinsey, as of 2015, cross-border data flows between the United States and Europe were by far the most intense in the world – 50% higher than data flows between the United States and Asia in absolute terms, and 400% higher on a per capita basis.

Digitally-enabled services account for an ever-growing share of U.S. and European services exports and services sales by U.S. and European companies based abroad. In addition, their transformative impact is not limited to just the services sector but extends to manufacturing and the traditional bricks-and-mortar economy as well. Digitally-enabled services such as consulting, engineering, software, design and finance are used in manufacturing industries such as transport equipment, electrical equipment and food products. In this regard, digitally-enabled services from the United States have become critical to the competitiveness of European manufacturing and retail operations, and vice versa.

Moreover, digitally-enabled services are not just exported directly, they are used in manufacturing and to produce goods and services for export. Over half of digitally-enabled services imported by the United States from the EU is used to produce U.S. products for export, and vice versa, thus generating an additional value-added effect on trade that is not easily captured in standard metrics.

In 2017, the United States registered a $172.6 billion trade surplus in digitally-enabled services with the world. Its main commercial partner was Europe, to which it exported $204.2 billion in digitally enabled services and from which it imported $123.7 billion, generating a trade surplus with Europe in this area of $80.5 billion, according to figures from the U.S. Bureau of Economic Analysis. U.S. exports of digitally-enabled services trade to Europe were 2 ½ times greater than U.S. digitally-enabled services exports to Latin America, and almost double U.S. digitally-enabled services exports to the entire Asia-Pacific region.

The United States, in turn, is the largest non-EU consumer of EU digitally-enabled services exports, accounting for more EU exports than the rest of non-EU Europe and more than all digitally-enabled services exports from the EU to Asia and Oceania ($165.4 billion).

The Importance of the Auto Industry

The auto industry is a key example of the strong trade and investment ties between the United States and Europe. Foreign auto companies are critical supports to the US economy in terms of employment, value added, exports, technological advancements, and, ultimately, America's productivity and competitiveness.

- *Employment:* European companies directly support 173,000 jobs in the U.S. motor vehicle and parts industry, or 42% of total foreign affiliate employment in this industry. This figure, however, only accounts for direct employment by affiliates and ignores the downstream effects that European auto manufacturing investment has had on other industries such as automotive dealers, parts suppliers, and research and development (R&D). Incorporating the larger downstream employment effects, the European Commission estimates that EU auto companies support around 420,000 U.S. jobs.

- *Production:* According to the European Automobile Manufacturers Association, EU auto companies produced roughly 2.9 million passenger cars in 2017, or 26% of total U.S. production. All totaled, European auto and parts companies contributed $34 billion towards America's gross domestic product (GDP) in 2016.

- *Exports:* European manufacturers not only produce vehicles for U.S. consumers, but also use the U.S. market as a key export hub to send their vehicles overseas. About 60% of European cars produced in the United States are exported to third markets, like China and the EU. Thus, trade tensions between the United States and China threaten an important source of demand for European automakers.

- *Innovation:* European auto companies that invest in the United States are also key contributors to the innovation and research culture that drives the U.S. economy. R&D expenditures by European affiliates in the U.S. auto industry reached a record $5.5 billion in 2016, or 12.5% of total European affiliate R&D spending.

While foreign direct investment (FDI) is the primary method of cross-border commerce in the auto industry, U.S.-EU trade ties are also significant, with auto-related trade representing 10% of total trade between the two regions. The United States was the largest global market for EU car exports in 2017, representing 29% ($45 billion) of total EU auto exports. Meanwhile, Europe was a significant purchaser of U.S.-produced vehicles, taking in 20% of total U.S. car exports.

The Impact of Brexit

Current uncertainties in transatlantic commercial ties could be exacerbated significantly as of this fall, when the UK is set to leave the EU. The vote to leave the EU in June 2016 has already cost the UK about 800 million pounds ($1 billion) per week (about 2% of total economic output). Ernst and Young expects a trillion euros in bank assets to flee the UK. U.S. foreign direct investment flows to the UK plunged by 31% in 2017 and by another 9.8% in the first nine months of 2018. The UK government itself estimated that under the terms of the 2018 UK-EU draft agreement – rejected by the British Parliament yet deemed the best deal the UK could expect by the EU – the British economy would shrink by 3.9% (a loss of £100 billion) by 2030. Without a deal, the Confederation of British Industry concluded that every part of the UK would pay an "unacceptable economic price." No matter what the Brexit terms may be, the process is likely to unsettle markets and cast a cloud over the UK's relations with the U.S. and key partners for many years.

America's economic stakes in the United Kingdom are among the deepest in the world. Totaling $748 billion in 2017, the last year of available data, America's capital stock in the UK is more than double the combined investment in South America, the Middle East and Africa ($253 billion) and seven times greater than U.S. investment stock in China ($108 billion in 2017). Even when the U.S. investment presence in China and India are combined – totaling $152 billion in 2017 – the figure is just 20% of total U.S. investment in the UK. Whatever the metric – total assets, R&D expenditures, foreign affiliate sales, employment, trade, etc. – the United Kingdom has been a longtime pillar of America's global economic infrastructure and a key hub for the global competitiveness of U.S. firms.

As Brexit unfolds, the United States has a vital stake in ensuring that each point in the transatlantic triangle -- U.S.-UK, UK-EU, and U.S.-Europe -- is strong and sturdy. Failure to ensure that these three elements are mutually reinforcing rather than mutually disruptive will shortchange American workers, American consumers, American companies, and American interests.

When the UK exits the EU, the UK government's Great Reform Bill will transform EU legislation into UK legislation. That will ensure initial consistency with current rules in the UK. But once the UK does leave

the EU, it will assess whether it wants to continue with those EU-oriented rules or whether it wants to determine, and then implement, new and different regulations.

When the UK exits the EU it will also have to do three things that will affect U.S. economic interests.

First, it will have to replace the EU's common external tariff with its own customs tariff, and will also need to submit new tariff commitments for both goods and services at the World Trade Organization (WTO). These commitments must be agreed by consensus among the entire WTO membership -- 161 countries. If only one WTO member objects, the UK's schedule of commitments will be disqualified. The EU itself could block it. Russia could block it. China or India could block it. Some countries may be reasonable, others may seek to gain advantage at UK expense. All of this will take some time and preoccupy the UK's limited bench of trade negotiators.

The United States will be particularly keen to know how far the UK will be prepared to go in such areas as services or agriculture when it comes to trade with other WTO members. Until the UK's WTO commitments are known and agreed, our trade negotiators will not know the baseline for their own bilateral negotiations with the UK.

Second, the UK will negotiate new trade arrangements with the EU 27. A future UK-EU trade arrangement is unlikely to simply replicate the status quo in terms of UK access to the EU Single Market. The terms are likely to be less advantageous than if the UK were a member of the EU. While tariff-free access for goods is likely, firms based in the UK are likely to face some local content requirements within the EU. It is unlikely that there will be tariff-free access for services. UK financial services in particular are likely to lose their current right to "passport" financial services to the rest of the EU. Each of these provisions -- as well as related provisions to be negotiated during the transition period -- are likely to affect U.S. companies and banks with affiliates in the UK.

A new trading relationship between the UK and the EU will need to be approved by parliaments of all 28 current EU member states and by the European Parliament. Given the complicated issues and procedures involved, it is likely that such a new agreement would only take effect sometime in the middle of the next decade. This means there is likely to be a period of transition that could last as much as six years. Both parties will also have to negotiate trade and commercial arrangements for this transitional period. Such arrangements will not be subject to parliamentary approval.

Third, it will want to negotiate new trade arrangements with the United States as well as many other non-EU countries. EU rules mean that London cannot legally begin negotiating a trade deal with Washington before the UK leaves the EU, which at the earliest will be October 31, 2019. When Washington sets out to negotiate a formal bilateral deal with the UK, it will want to understand the UK's new WTO commitments and the nature of UK-EU transitional arrangements following Brexit, as well as London's end goals with regard to a deal with the UK's largest trade partner, the EU. This will all take time.

Washington and London have already been conducting what might be called "shadow" negotiations to identify potential stumbling blocks and scope out what create a basic framework might eventually look like.

What would be the major issues in a U.S.-UK deal? Agreeing on reductions in traditional trade tariffs is not likely to be very troublesome, since most tariffs are already quite small, with a few notable exceptions, such as agriculture. The much bigger gains from a bilateral deal would come from

- reducing barriers to services, the "sleeping giant" of the transatlantic economy and where job gains are likely to occur;

- recognizing that various regulatory procedures in one country essentially conform or are equivalent to those in the other country;
- pioneering standards in new economic areas that could push the global frontier.

Keeping in mind that both the U.S. and the UK have more to gain from achieving some agreement with the EU than simply with each other, each should want to ensure that whatever agreements they reach with each other serve to strengthen, rather than disrupt, their more significant commercial connections with the EU. Similarly, the EU will want to ensure that a U.S.-UK agreement, as well as any separate arrangements it may advance with the U.S. and with the UK, will enhance its own economic ties with two of its most significant economic partners.

A U.S-UK agreement could be harder than some anticipate. Disagreements are likely to arise over differences in regulatory policy. Issues such as public procurement and healthcare have strong public constituencies and are often extremely sensitive. Remaining tariff barriers, especially in agriculture, often reflect the most politically difficult cases. It is unclear, for instance, whether UK farmers will be keen on a trade deal that would open them up to U.S. competition at the very time they are losing generous EU subsidies, or whether they will be willing to accommodate U.S. interests in changing their rules related to hygiene or genetically-modified organisms if that makes it harder for them to sell to the EU, which is their largest market.

The benefits, however, could be considerable, and important to many constituencies across the United States.

U.S.-EU: Possible Ways Forward

For decades the partnership between North America and Europe has been a steady anchor in a world of rapid change. Today, however, the transatlantic partnership itself has become unsettled and uncertain. Nowhere is this clearer than in the economic sphere.

This state of division and mutual inwardness threatens the prosperity and ultimately the position of North America and Europe in the global economy and the broader global security system.

Previous efforts to harness the potential of the North Atlantic economy have foundered for a variety of reasons. Nonetheless, the strategic case for an upgraded and updated transatlantic economic partnership is more compelling than ever.

Opportunities may still be within reach. Four paths seem plausible.[2]

The Road We Are On: Transatlantic Zero

The notional goal of current U.S.-EU negotiations would be to remove all U.S.-EU tariffs on industrial goods (Transatlantic Zero), reduce non-tariff barriers and subsidies on industrial goods, and to reduce barriers to services.

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[2] For more, see Daniel S. Hamilton, *Creating the North Atlantic Marketplace for Jobs and Growth: Three Paths, One Detour, A U-Turn, and the Road to Nowhere* (Washington, DC: Center for Transatlantic Relations, 2017), https://transatlanticrelations.org/wp-content/uploads/2018/09/Creating-a-North-Atlantic-Market-Place-by-Daniel-S.-Hamilton.pdf

Since many of these barriers are relatively low, skeptics wonder about the benefits of going to "transatlantic zero." But given that many U.S. and EU exports in the end result from many different intermediate imports, and that related-party trade, or trade among affiliates of the same company, is so important in transatlantic commerce, even relatively low tariffs can have multiple knock-on effects all down the value chain, potentially cutting the cost of production and lowering prices for consumers.

Moreover, given the size of the transatlantic economy, even small changes can have big effects on jobs and growth. Freer transatlantic trade without tariffs and with lower technical barriers could translate into millions of new jobs across the North Atlantic space and improve both earnings and competitiveness for many companies, particularly small- and medium-sized enterprises.

On the face of it, achieving a "Transatlantic Zero" deal may not be that hard. When TTIP negotiations paused in January 2017, negotiators had already exchanged offers to eliminate duties on 97% of tariff lines, a large majority of which would be phased out immediately upon entry into force of the agreement or phased out quickly.

Despite current U.S. and EU rhetoric supporting this approach, at least five issues render the chances for an agreement low, at least through 2020.

First, it is unclear how a negotiation to achieve Transatlantic Zero solely on industrial goods would be compatible with WTO rules that mandate that trade agreements must include "substantially all trade."

Second, France insists that EU trade agreements can only be concluded with partners who are signatories to the Paris Climate Agreement, from which the United States has withdrawn. France also did not support giving the European Commission the mandate to begin negotiations. It was overruled, but its support will be crucial in any endgame.

Third, the political window for a deal has essentially closed for this year. The current European Commission's mandate expires this fall.

Fourth, each side wants to exclude the economic sector that is perhaps of most interest to the other: Brussels doesn't want to include agriculture, and Washington doesn't want to include government procurement. In addition, the auto sector has become a particularly contentious issue, and the chances for a breakdown are high.

Fifth, the type of deal being discussed, if implemented, is unlikely to do much to narrow the U.S. bilateral merchandise trade deficit with the EU, which ostensibly is President Trump's primary concern.

The Road to Nowhere: The Deep Freeze

Should current talks falter, it is tempting simply to keep transatlantic negotiations in the deep freeze. The obstacles seem too high, and the incentives too low, for either side of the Atlantic to invest much political capital in any major transatlantic economic initiative. Yet unresolved trade, tax and privacy issues are more likely to fester than remain frozen. Washington and Brussels will be distracted and diminished by their trade squabbles as China rises. The WTO itself could be at risk. Economic anxieties and political prejudices will be exacerbated. The result is likely to be a downward spiral of mutual recrimination. It would be more than drift; it would mean accelerating protectionism, U.S.-EU rivalry in third markets, and the triumph of lowest-common-denominator standards for the health, safety and welfare of Americans and Europeans alike. Standing still means losing ground. The Deep Freeze may be the path of least resistance, but it is the road to nowhere.

The Regulatory Road

If the will is there (a very big if), both sides could gain considerably from closer regulatory cooperation. Given that tariffs on average are quite low across the Atlantic, more is likely to be gained economically through mutual recognition of essentially equivalent norms and regulatory coherence than through tariff reductions.

Through TTIP U.S. and EU officials already

- found common ground on a number of important good regulatory practices;
- made good progress in developing approaches for facilitating forward-looking regulatory cooperation in areas of common interest;
- identified possible mechanisms for reducing unnecessary burdens in transatlantic trade arising from redundant or duplicative product testing and certification requirements;
- negotiated provisions that would facilitate trade subject to sanitary and phytosanitary import checks; and
- explored in detail ways to enable stakeholders to participate more fully in the development of product standards across the Atlantic, and how to take into account those standards.

Critics may charge that the prospect of such agreements between the Trump Administration and the EU would be low. Yet the two parties have already shown they can strike such deals, most recently on drug regulations and on insurance. In each of these areas, each side has shown a capacity to reach an agreement that improves efficiencies, reduces costs, and facilitates transatlantic commerce without challenging basic precepts of sovereignty. Neither agreement compels either party to adopt the other's system. Neither imposes exactly the same regulation on both sides of the Atlantic. Rather, each reflects the belief of the respective regulators, supported by evidence, that the quality of drug inspections, or the level of consumer protection regarding insurance, is substantially equivalent in the EU and in the United States.

Other sectors show similar promise for U.S.-EU agreement: automotive safety regulations; unique identification of medical devices; fiber names and labelling, safety requirements, and conformity assessment procedures in the textiles sector; cosmetics; pesticides; chemicals; information and communications technology; engineering; and technical barriers to trade. A paper circulated by the European Commission among EU member countries marine equipment, car safety, pharmaceuticals, and medical devices, and new technologies (such as electric cars, robotics and cybersecurity) as areas in which the two economies could develop more regulatory cooperation. Food safety is also mentioned, although with big caveats on the need to maintain EU standards. The paper also lists areas where testing procedures between the EU and U.S. are similar enough that both the EU and U.S. could recognize each other's regulations as acceptable without re-testing.

The two sides could initiate workstreams in which officials could chip away at workaday issues and seek to capitalize on progress that had been achieved both within and outside the TTIP framework. The U.S.-EU High Level Regulatory Cooperation Forum (HLRCF), established in 2005, could be revived to allow regulators themselves to promote best practices in such cooperation.

Regulatory cooperation need not mean that the U.S. or the EU would "harmonize" laws. A range of possibilities are possible, for instance

- agreement on principles and best practices in domestic regulation (sometimes referred to as 'regulatory coherence');
- general (or 'horizontal') provisions governing regulatory cooperation;
- sharing of safety or other data; and
- provisions on how such regulatory cooperation should relate to third parties.

U.S.-EU regulatory cooperation also need not take the form of a trade agreement. Rather, a political statement of principles could essentially frame a series of regulator-to-regulator agreements, each tailored to the specific nature of their particular regulatory sphere. Such understandings could also be advanced within international organizations, like the UNECE for car standards.

Such an approach would not hold trade and regulatory issues hostage to one another. Regulator-to-regulator agreements could proceed without waiting for the many details of a trade agreement to be nailed down. Similarly, trade liberalization would not need to be delayed until regulatory processes unfolded.

The U.S. and EU might consider a framework document to move this initiative forward. Regulatory agencies do not necessarily need an overarching document to reach accords with other regulators; U.S. and EU regulators, for instance, have signed over 20 such agreements. But a framework document could provide direction to that cooperation and give it a higher political profile without undermining regulatory processes.

Regulatory cooperation may lead to less need for duplication of testing, less adjustment needs for different markets, fewer contradictory technical requirements and overall save producers large unnecessary costs – without lowering levels of protection. Over time, case-by-case agreements in these areas would build a significant transatlantic 'acquis' that would influence and perhaps even set the bar for regulatory officials in many other areas of the world. Moreover, if regulators have evidence demonstrating that their transatlantic counterparts are able to enforce levels of protection similar to their own, they can develop a partnership with that counterpart regulator, allowing them to focus their limited enforcement resources on higher-risk problems emanating from other areas of the world.[3]

Washington and Brussels could also cherry pick other non-trade wins, both by looking at possible low-level executive or inter-agency agreements that are "under the radar" of high-level political attention, and at promising elements from the TTIP negotiations. For example, both sides have already identified steps to reduce unnecessarily burdensome requirements and delays at each other's borders. They already negotiated a dedicated chapter focused on small and medium-sized enterprises, which, among other things, could help small and medium-sized enterprises better navigate the transatlantic marketplace through the provision of enhanced online information and new mechanisms for U.S.-EU cooperation. They also already agreed on the importance of transparency and due process in trade remedy procedures and competition policy; public affirmation of these principles would be reassuring at a time of economic uncertainty and tension.

The Road Not (Yet) Taken: TTIP 2.0

The Trump Administration abandoned TTIP upon entering office, even though the negotiations were almost finalized. Simply continuing TTIP runs headlong into significant differences in political priorities between the Trump administration and EU governments. And unless modified, it would be likely to reinforce, rather than assuage, public anxieties about the effects of transatlantic regulatory harmonization and investor-state

[3] The United States imports around 90% of its seafood, for instance, most of it from Asia, but only 2% of it is inspected. See United States Government Accountability Office, "Food Safety: Additional Actions Needed to Help FDA's Foreign Offices Ensure Safety of Imported Food," Report to the Chairman, Subcommittee on Europe, Eurasia, and Emerging Threats, Committee on Foreign Affairs, House of Representatives, January 2015, available at http://www.gao.gov/assets/670/668230.pdf.

dispute provisions. It does not address Brexit or the importance of including other North Atlantic partners beyond the United States and the European Union. A modified TTIP that took account of such concerns, however, remains the path offering the greatest potential economic impact for both economies, and could equip each side of the Atlantic with greater leverage with regard to global competition. TTIP 2.0 would not be just another free trade agreement, it would pioneer new ways the two major democratic actors in the global economy could address costly frictions generated via their deep commercial integration by aligning regulations, opening services, and setting benchmarks for high-quality global norms and rules. Given strong political headwinds, however, the TTIP path may have run out of road.

Each of these paths has its pros and cons. The time to choose may not yet be at hand. But it is coming soon. The transatlantic relationship has entered a period of estrangement; trade and investment ties remain thick, but fragile, and are eroding with each passing month. The U.S.-European partnership is too big and too important to fail.

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Appendix [4]

European-Sourced Jobs, Trade and Investment in the 50 U.S. States

[4] Figures are drawn from Daniel S. Hamilton and Joseph P. Quinlan, *The Transatlantic Economy 2019: Annual Survey of Jobs, Trade and Investment between the United States and Europe* (Washington, DC: Foreign Policy Institute, Johns Hopkins University SAIS, 2019).

Massachusetts and Europe

Jobs

159,500

Since 2006: +40,200 (33.7%)

2006 2016

European companies account for **75%** of foreign affiliate jobs

Employment within Massachusetts, 2016

Country	Employment
United Kingdom	40,700
Netherlands	36,200
France	22,700
Canada	22,600
Germany	17,700

On a country basis, U.K. companies operating in Massachusetts represented 19% of total foreign affiliate employment in Massachusetts, with U.K. multinationals supporting approximately 2,400 more jobs in 2016 than in 2010.

Jobs directly supported by European investment. Total European-related jobs are likely to be higher, because these figures do not include jobs created by trade flows, indirect employment effects through distributors or suppliers, or via non-equity arrangements such as strategic alliances, joint ventures, or other deals.

Investment

Sources of Greenfield Foreign Direct Investment (FDI)

UK
France
Germany
Canada
Ireland

620 Greenfield Projects (October 2008 - September 2018)

Number of projects does not directly translate to value of projects or jobs added. Greenfield FDI is investment in new assets.

Trade

Massachusetts Goods Exports to Europe, 2017

$10.6 bn

Computers & electronic products and chemicals each account for over 17% of total European exports.

Massachusetts Goods Imports from Europe, 2017

$12.1 bn

Key imports from Europe include chemicals, miscellaneous manufactured items, and computer & electronic products.

Top European Export Markets, 2017

Country	Exports ($ millions)
United Kingdom	2,116
Germany	1,820
Netherlands	1,255
Switzerland	1,119
Ireland	914

Top European Import Markets, 2017

Country	Imports ($ millions)
Ireland	2,386
Germany	1,982
Italy	1,905
United Kingdom	1,577
Switzerland	1,123

Top Ten Exports to Europe, 2017 ($ millions)

- Chemical Manufactures
- Computers & Electronic Prod.
- Primary Metal Manufactures
- Misc. Manufactures
- Machinery Manufactures
- Waste & Scrap
- Elec. Equip., Appliances & Parts
- Transportation Equipment
- Fishing, Hunting, & Trapping
- Plastic & Rubber Products

Top Ten Imports from Europe, 2017 ($ millions)

- Chemical Manufactures
- Misc. Manufactures
- Computers & Electronic Prod.
- Machinery Manufactures
- Petroleum & Coal Products
- Goods Returned
- Beverage & Tobacco Products
- Fishing, Hunting, & Trapping
- Elec. Equip., Appliances & Parts
- Primary Metal Manufactures

Sources: Bureau of Economic Analysis, U.S. Census Bureau, U.S. Department of Commerce, SelectUSA

South Carolina and Europe

Jobs

101,500

Since 2006: +17,300 (20.5%)

2006 **2016**

European companies account for

71%

of foreign affiliate jobs

Employment within South Carolina, 2016

Country	Employment
Germany	29,200
France	25,100
Japan	15,100
United Kingdom	12,300
Canada	10,500

On a country basis, German companies operating in South Carolina represented 21% of total foreign affiliate employment in South Carolina, with German multinationals supporting approximately 9,900 more jobs in 2016 than in 2010.

Jobs directly supported by European investment; total European-related jobs are likely to be higher because these figures do not include jobs created by trade flows, indirect employment effects through distributors or suppliers, or via non-equity arrangements such as strategic alliances, joint ventures, or other deals.

Investment

Sources of Greenfield Foreign Direct Investment (FDI)

Germany
Canada
Japan
UK
France

442

Greenfield Projects (October 2008 - September 2018)

Number of projects does not directly translate to value of projects or jobs added. Greenfield FDI is investment in new assets.

Trade

South Carolina Goods Exports to Europe, 2017

$9.1 bn

63% of the state's exports consist of transportation equipment, reflecting the state's linkages with European auto manufacturers.

South Carolina Goods Imports from Europe, 2017

$15.1 bn

Transportation equipment was also the top imported product from Europe, making up 24% of the state's total European imports.

Top European Export Markets, 2017

Country	Exports ($ millions)
Germany	3,647
United Kingdom	2,287
Belgium	595
France	504
Norway	335

Top European Import Markets, 2017

Country	Imports ($ millions)
Germany	6,873
Austria	1,115
France	933
United Kingdom	890
Italy	740

Top Ten Exports to Europe, 2017 ($ millions)

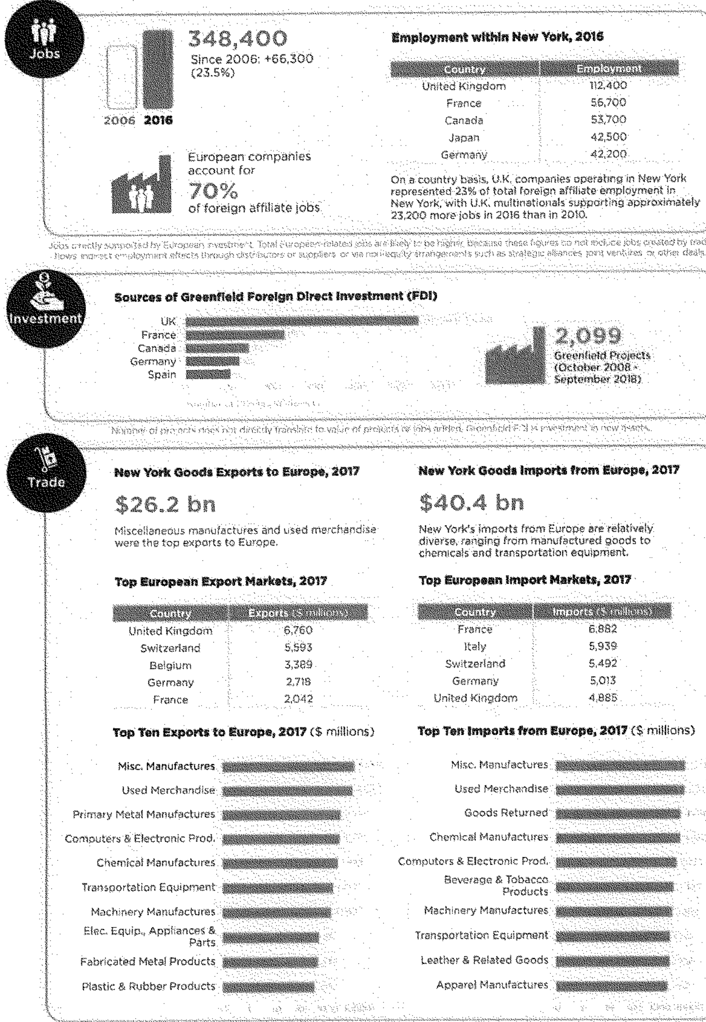
Transportation Equipment
Chemical Manufactures
Machinery Manufactures
Computers & Electronic Prod.
Fabricated Metal Products
Paper Products
Elec. Equip., Appliances & Parts
Plastic & Rubber Products
Processed Foods
Misc. Manufactures

Top Ten Imports from Europe, 2017 ($ millions)

Transportation Equipment
Machinery Manufactures
Chemical Manufactures
Computers & Electronic Prod.
Fabricated Metal Products
Elec. Equip., Appliances & Parts
Plastic & Rubber Products
Primary Metal Manufactures
Misc. Manufactures
Goods Returned

Sources: Bureau of Economic Analysis, U.S. Census Bureau, U.S. Department of Commerce, SelectUSA.

New York and Europe



Employment within New York, 2016

Country	Employment
United Kingdom	112,400
France	56,700
Canada	53,700
Japan	42,500
Germany	42,200

Top European Export Markets, 2017

Country	Exports ($ millions)
United Kingdom	6,760
Switzerland	5,593
Belgium	3,389
Germany	2,718
France	2,042

Top European Import Markets, 2017

Country	Imports ($ millions)
France	6,882
Italy	5,939
Switzerland	5,492
Germany	5,013
United Kingdom	4,885

Sources: Bureau of Economic Analysis, U.S. Census Bureau, U.S. Department of Commerce, SelectUSA.

Illinois and Europe

Jobs

230,100
Since 2006: +58,800 (34.3%)

2006 **2015**

European companies account for **68%** of foreign affiliate jobs

Employment within Illinois, 2016

Country	Employment
United Kingdom	79,400
Japan	42,400
Germany	40,400
France	36,400
Canada	27,900

On a country basis, U.K. companies operating in Illinois represented 23% of total foreign affiliate employment in Illinois, with U.K. multinationals supporting approximately 28,500 more jobs in 2016 than in 2010.

Jobs directly supported by European investment. Total European-related jobs are likely to be higher, because these figures do not include jobs created by trade flows, indirect employment effects through distributors or suppliers, or via non-equity arrangements such as strategic alliances, joint ventures, or other deals.

Investment

Sources of Greenfield Foreign Direct Investment (FDI)

UK
Germany
Japan
Canada
France

586
Greenfield Projects (October 2008 - September 2018)

Number of projects does not directly translate to value of projects or jobs added. Greenfield FDI is investment in new assets.

Trade

Illinois Goods Exports to Europe, 2017

$12.9 bn

Chemicals and machinery are top exports, followed by computers & electronic products and transportation equipment.

Illinois Goods Imports from Europe, 2017

$22.1 bn

Chemicals and machinery are also the state's top imports from Europe.

Top European Export Markets, 2017

Country	Exports ($ millions)
Germany	3,439
United Kingdom	1,740
Netherlands	1,711
Belgium	1,665
France	836

Top European Import Markets, 2017

Country	Imports ($ millions)
Germany	5,571
United Kingdom	2,595
Italy	2,468
Ireland	1,857
France	1,819

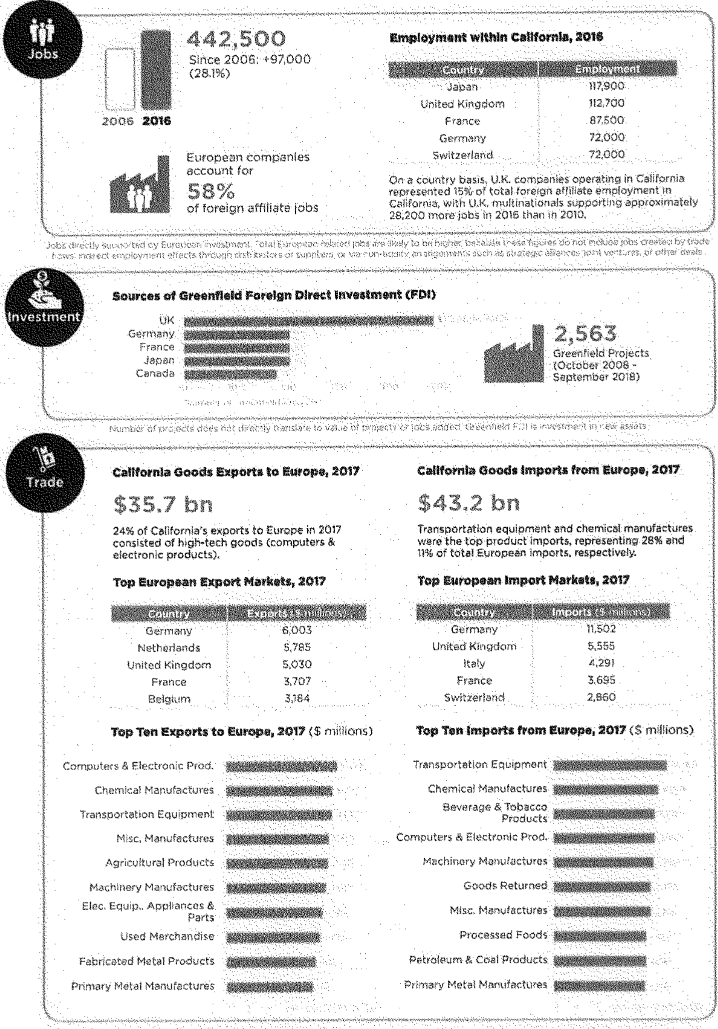
Top Ten Exports to Europe, 2017 ($ millions)

Chemical Manufactures
Machinery Manufactures
Computers & Electronic Prod.
Transportation Equipment
Elec. Equip., Appliances & Parts
Fabricated Metal Products
Misc. Manufactures
Processed Foods
Plastic & Rubber Products
Waste & Scrap

Top Ten Imports from Europe, 2017 ($ millions)

Chemical Manufactures
Machinery Manufactures
Transportation Equipment
Primary Metal Manufactures
Computers & Electronic Prod.
Goods Returned
Elec. Equip., Appliances & Parts
Fabricated Metal Products
Processed Foods
Misc. Manufactures

Sources: Bureau of Economic Analysis, U.S. Census Bureau, U.S. Department of Commerce, SelectUSA



California and Europe

Employment within California, 2016

Country	Employment
Japan	117,900
United Kingdom	112,700
France	87,500
Germany	72,000
Switzerland	72,000

On a country basis, U.K. companies operating in California represented 15% of total foreign affiliate employment in California, with U.K. multinationals supporting approximately 28,200 more jobs in 2016 than in 2010.

Jobs directly supported by European investment. Total European-related jobs are likely to be higher because these figures do not include jobs created by trade flows, indirect employment effects through distributors or suppliers, or via non-equity arrangements such as strategic alliances, joint ventures, or other deals.

Number of projects does not directly translate to value of projects or jobs added. Greenfield FDI is investment in new assets.

California Goods Exports to Europe, 2017

$35.7 bn

24% of California's exports to Europe in 2017 consisted of high-tech goods (computers & electronic products).

Top European Export Markets, 2017

Country	Exports ($ millions)
Germany	6,003
Netherlands	5,785
United Kingdom	5,030
France	3,707
Belgium	3,184

California Goods Imports from Europe, 2017

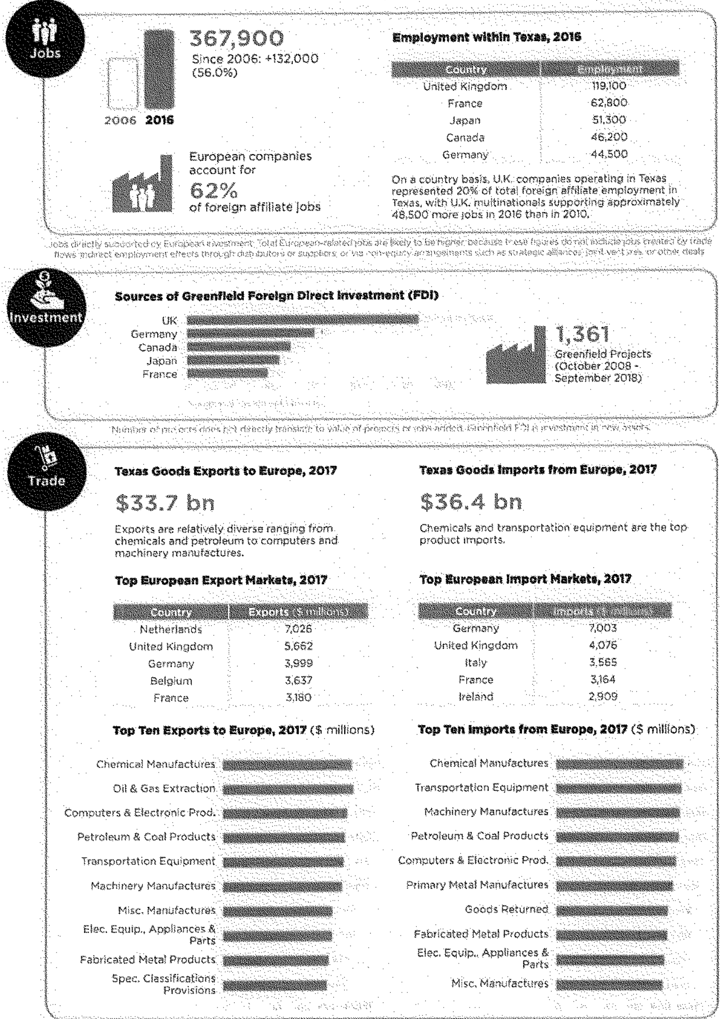
$43.2 bn

Transportation equipment and chemical manufactures were the top product imports, representing 28% and 11% of total European imports, respectively.

Top European Import Markets, 2017

Country	Imports ($ millions)
Germany	11,502
United Kingdom	5,555
Italy	4,291
France	3,695
Switzerland	2,860

Sources: Bureau of Economic Analysis, U.S. Census Bureau, U.S. Department of Commerce, SelectUSA



Appendix A - European Commerce and the 50 U.S. States: A State-by-State Comparison

Texas and Europe

Jobs

367,900
Since 2006: +132,000 (56.0%)

2006 **2016**

European companies account for
62%
of foreign affiliate jobs

Employment within Texas, 2016

Country	Employment
United Kingdom	119,100
France	62,800
Japan	51,300
Canada	46,200
Germany	44,500

On a country basis, U.K. companies operating in Texas represented 20% of total foreign affiliate employment in Texas, with U.K. multinationals supporting approximately 48,500 more jobs in 2016 than in 2010.

Jobs directly supported by European investment. Total European-related jobs are likely to be higher because these figures do not include jobs created by trade flows, indirect employment effects through distributors or suppliers, or via non-equity arrangements such as strategic alliances, joint ventures, or other deals

Investment

Sources of Greenfield Foreign Direct Investment (FDI)

1,361
Greenfield Projects (October 2008 - September 2018)

Number of projects does not directly translate to value of projects or jobs added. Greenfield FDI is investment in new assets.

Trade

Texas Goods Exports to Europe, 2017

$33.7 bn

Exports are relatively diverse ranging from chemicals and petroleum to computers and machinery manufactures.

Texas Goods Imports from Europe, 2017

$36.4 bn

Chemicals and transportation equipment are the top product imports.

Top European Export Markets, 2017

Country	Exports ($ millions)
Netherlands	7,026
United Kingdom	5,662
Germany	3,999
Belgium	3,637
France	3,180

Top European Import Markets, 2017

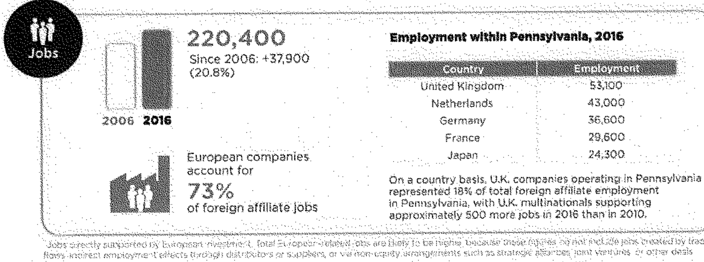
Country	Imports ($ millions)
Germany	7,003
United Kingdom	4,076
Italy	3,565
France	3,164
Ireland	2,909

Top Ten Exports to Europe, 2017 ($ millions)

Top Ten Imports from Europe, 2017 ($ millions)

Sources: Bureau of Economic Analysis, U.S. Census Bureau, U.S. Department of Commerce, SelectUSA.

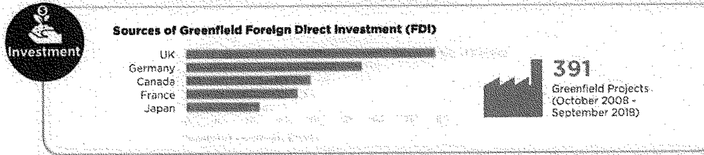
Pennsylvania and Europe



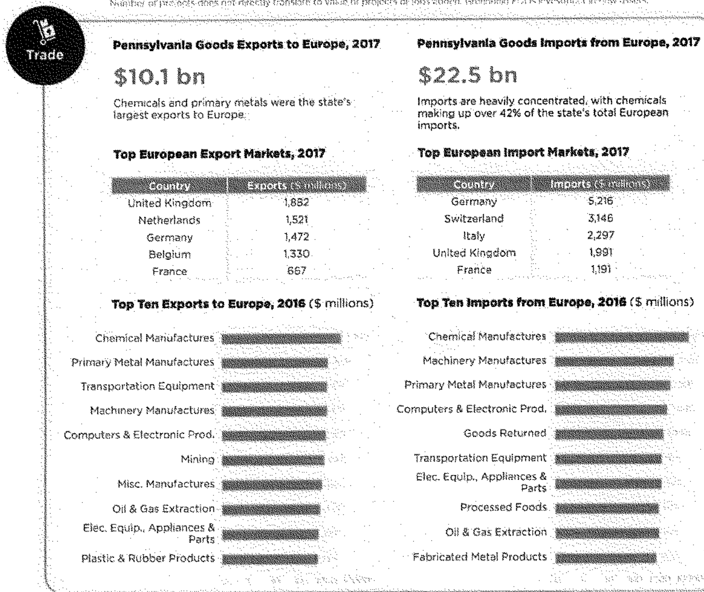
Employment within Pennsylvania, 2016

Country	Employment
United Kingdom	53,100
Netherlands	43,000
Germany	36,600
France	29,600
Japan	24,300

Jobs directly supported by European investment. Total European-related jobs are likely to be higher because these figures do not include jobs created by trade flows, indirect employment effects through distributors or suppliers, or via non-equity arrangements such as strategic alliances, joint ventures or other deals.



Number of projects does not directly translate to value of projects or jobs added. Greenfield FDI is investment in new assets.



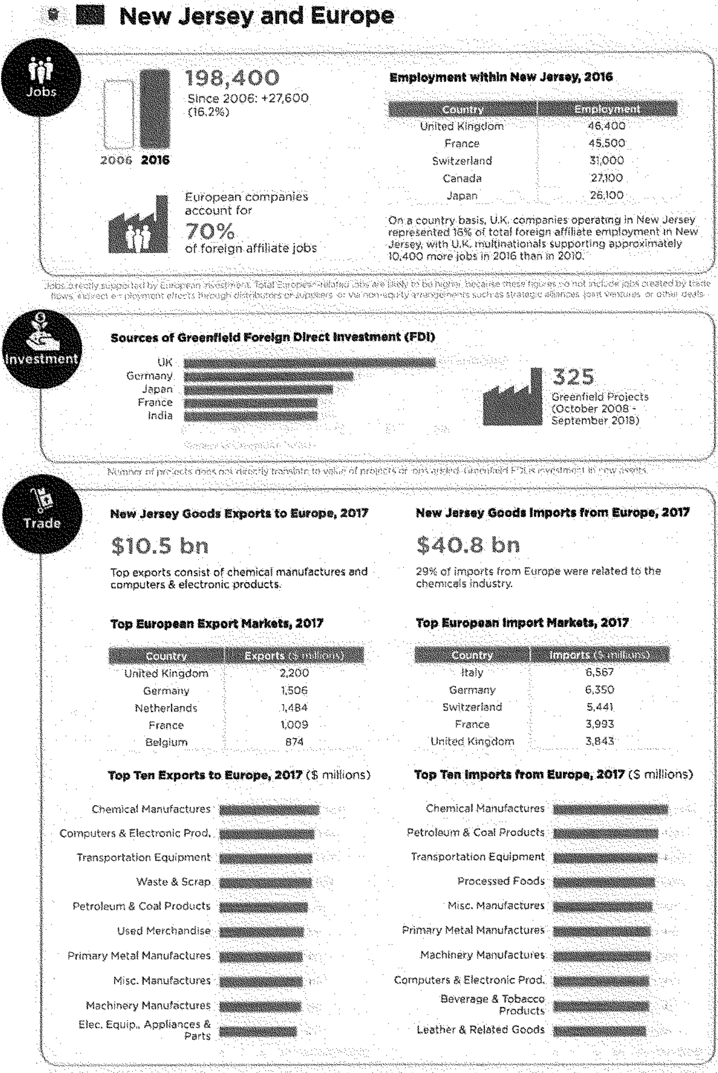
Top European Export Markets, 2017

Country	Exports ($ millions)
United Kingdom	1,882
Netherlands	1,521
Germany	1,472
Belgium	1,330
France	667

Top European Import Markets, 2017

Country	Imports ($ millions)
Germany	5,216
Switzerland	3,146
Italy	2,297
United Kingdom	1,991
France	1,191

Sources: Bureau of Economic Analysis, Foreign Trade Division, U.S. Census Bureau, U.S. Department of Commerce, SelectUSA



New Jersey and Europe

Jobs

198,400
Since 2006: +27,600 (16.2%)

2006 **2016**

European companies account for
70%
of foreign affiliate jobs

Employment within New Jersey, 2016

Country	Employment
United Kingdom	46,400
France	45,500
Switzerland	31,000
Canada	27,100
Japan	26,100

On a country basis, U.K. companies operating in New Jersey represented 16% of total foreign affiliate employment in New Jersey, with U.K. multinationals supporting approximately 10,400 more jobs in 2016 than in 2010.

Jobs directly supported by European investment. Total Europe-related jobs are likely to be higher, because these figures do not include jobs created by trade flows, indirect employment effects through distributors or suppliers, or via non-equity arrangements such as strategic alliances, joint ventures, or other deals.

Investment

Sources of Greenfield Foreign Direct Investment (FDI)

UK
Germany
Japan
France
India

325
Greenfield Projects (October 2008 - September 2018)

Number of projects does not directly translate to value of projects or jobs added. Greenfield FDI is investment in new assets.

Trade

New Jersey Goods Exports to Europe, 2017

$10.5 bn

Top exports consist of chemical manufactures and computers & electronic products.

New Jersey Goods Imports from Europe, 2017

$40.8 bn

29% of imports from Europe were related to the chemicals industry.

Top European Export Markets, 2017

Country	Exports ($ millions)
United Kingdom	2,200
Germany	1,506
Netherlands	1,484
France	1,009
Belgium	874

Top European Import Markets, 2017

Country	Imports ($ millions)
Italy	6,567
Germany	6,350
Switzerland	5,441
France	3,993
United Kingdom	3,843

Top Ten Exports to Europe, 2017 ($ millions)

Chemical Manufactures
Computers & Electronic Prod.
Transportation Equipment
Waste & Scrap
Petroleum & Coal Products
Used Merchandise
Primary Metal Manufactures
Misc. Manufactures
Machinery Manufactures
Elec. Equip., Appliances & Parts

Top Ten Imports from Europe, 2017 ($ millions)

Chemical Manufactures
Petroleum & Coal Products
Transportation Equipment
Processed Foods
Misc. Manufactures
Primary Metal Manufactures
Machinery Manufactures
Computers & Electronic Prod.
Beverage & Tobacco Products
Leather & Related Goods

Sources: Bureau of Economic Analysis, U.S. Census Bureau, U.S. Department of Commerce, SelectUSA

Mr. KEATING. Thank you.
Ms. CHORLINS.

STATEMENT OF MARJORIE CHORLINS, VICE PRESIDENT, EUROPEAN AFFAIRS, U.S. CHAMBER OF COMMERCE, EXECUTIVE DIRECTOR, U.S.-U.K. BUSINESS COUNCIL

Ms. CHORLINS. Thank you, Mr. Chairman, Ranking Member Kinzinger. I appreciate the opportunity to testify before you today.

As you said, Mr. Chairman, the transatlantic economy remains by far the most successful bilateral commercial partnership in the world. There are innumerable opportunities to build on that partnership and equally grave risks if the tensions continue to escalate.

In June 2018, the Trump administration imposed tariffs on imports of EU steel and aluminum on national security grounds, despite the fact, as you mentioned, that most EU countries are NATO members and treaty allies of the U.S. When the steel and aluminum tariffs were announced, Chamber CEO Tom Donahue said, "These new unlawful tariffs will directly harm American manufacturers and provoke widespread retaliation from our trading partners." Unfortunately, those predictions have come true.

Meanwhile, the looming threat of 25 percent tariffs on imports of autos and auto parts is of grave concern. We trade nearly ten times as much in the auto sector as we do in steel and aluminum across the Atlantic. Again, quoting the Chamber CEO, "The U.S. Chamber strongly opposes the administration's threats to impose tariffs on auto imports in the name of national security. The U.S. auto industry is prospering as never before and these tariffs risk overturning all of this progress."

While the final decision on auto tariffs has been postponed for 6 months, the threat continues to erode trust between Europe and the U.S. Where the United States has been applying these tariffs on our friends and allies, the EU has been negotiating new market opening agreements. Brussels has concluded agreements with Japan and Canada and upgraded its existing agreement with Mexico. In a growing number of countries, European exporters actually enjoyed better access than U.S. companies.

When it comes to China, the U.S. Government, the Chamber, and Europe are indeed aligned on the challenges, but pursuing a unilateral tariff-driven approach is not the optimal way to effect lasting change in China. A coordinated approach would be much more powerful.

Another flash point concerns tax policy. Several European countries are considering digital services taxes that would disproportionately affect American companies. An informed and inclusive discussion on modernizing the international tax system is occurring at the OECD. Unilateral European actions erode trust and undermine prospects for an international agreement.

The Chamber was among the earliest and most vocal proponents of the Transatlantic Trade and Investment Partnership negotiations. We do regret that those talks were not concluded, but continue to believe that progress can and indeed, must be made.

Last July, President Trump and European Commission President Juncker announced new talks intended to lower transatlantic tariffs, remove non-tariff barriers, and enable closer cooperation on

shared challenges. We are very encouraged that the administration has returned to the negotiating table.

The Chamber has flagged several ways the two sides can boost economic growth, create good jobs and enhance competitiveness through a reinforced partnership. Our recommendations were submitted for the record today, but let me highlight just a few.

First, while the Chamber advocates for comprehensive trade agreements that address not just trade and goods, but also services, investment, procurement, and other issues, tariffs on industrial goods have recently been the chief focus of U.S. and EU officials. Elimination of tariffs could boost U.S. exports to the EU by as much as $50 billion, according to just one study.

Second, U.S. and EU policymakers should continue to promote regulatory cooperation. The two sides should try to establish common standards where none exist and where both sides are considering new rules. The emergence of autonomous vehicles is but one instance where the two sides can and should cooperative.

The U.S. and EU should also pursue mutual recognition of existing regulations in the many cases where our different approaches meet common regulatory objectives. We do understand that any conversation about trade with the EU must tackle politically sensitive issues such as agriculture. It is well understand, indeed, that a trade-liberalizing agreement that does not cover agriculture is a political nonstarter in Congress.

As we develop strategies on cybersecurity and artificial intelligence, the two sides should continue to develop common approaches that reflect our shared values and commitment to transparent stakeholder engagement. Both sides also must take steps to ensure the internet remains globally connected and interoperable. Our inter-dependent digital economies and securities depend on the ability to move data across borders efficiently and safely. The privacy shield which facilitates cross border data flows while protecting personal privacy must be reaffirmed.

The U.S. and Europe also should work closely with stakeholders to incentivize circular economy investments and promote resource efficiency. Transatlantic cooperation will make it easier for American and European firms to lead the way in addressing resource challenges and a changing climate while fostering economic growth.

Finally, transatlantic defense and security cooperation remains a cornerstone of our alliance. In light of a fast changing global security environment, including cyber attacks and disinformation campaigns, transatlantic cooperation remains essential. As the EU boosts its own strategic capabilities, its efforts must complement and be coordinated with NATO's priorities. Any new European defense project must allow for fair and transparent competition including for American companies.

Mr. Chairman, transatlantic trade tensions are occurring against the backdrop of several noncommercial disagreements that also have significant economic spillover effect. We encourage the subcommittee to engage actively with the administration and with the European policymakers to address these issues collaboratively.

In sum, there can be no effective resolution of our shared economic challenges without robust and constructive engagement between the U.S. and Europe.

Thank you very much.
[The prepared statement of Ms. Chorlins follows:]

This testimony is embargoed until 2:00 pm EST on June 26, 2019, when the hearing commences.

Statement of the U.S. Chamber of Commerce

ON: The Need to Revitalize Transatlantic Trade Relations

TO: U.S. House Foreign Affairs Committee
Subcommittee on Europe, Eurasia, Energy, and the Environment

BY: Marjorie Chorlins
Vice President, European Affairs
U.S. Chamber of Commerce

DATE: June 26, 2019

1615 H Street NW | Washington, DC | 20062

The Chamber's mission is to advance human progress through an economic, political, and social system based on individual freedom, incentive, initiative, opportunity, and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Introduction

Good afternoon, Chairman Keating, Ranking Member Kinzinger, and distinguished members of the subcommittee. My name is Marjorie Chorlins, and I am Vice President for European Affairs at the U.S. Chamber of Commerce. Thank you for this opportunity to testify on current trade policy disputes between the United States and the European Union, as well as the urgent need to put transatlantic economic relations on a firmer footing.

Why the Transatlantic Relationship Matters to Business

The transatlantic economy remains by far the most successful bilateral commercial partnership in the world. Earlier this year, the Chamber, in partnership with AmCham EU and Johns Hopkins University, released the *Transatlantic Economy 2019* report, which outlines the trade, investment, and jobs impacts of our commercial relationship with Europe.

A few topline facts from the report underscore that the United States and the European Union are the two largest and most integrated economies on earth -

- More than $3.75 billion in goods and services flow across the Atlantic each day.
- Two-way trade and investment supports more than 16 million jobs.
- The EU is our single largest trading partner in goods and services and is the largest consumer of U.S. exports.
- We are each other's single largest source and recipient of foreign direct investment: Half of all U.S. companies' investments abroad are bound for Europe and vice versa.

There are innumerable opportunities to build upon this solid foundation and strengthen our partnership. There are equally grave risks if tensions continue to escalate unabated.

The Current State of the Relationship

The relationship between the United States and European Union is unsettled on multiple fronts, including disagreements on such geostrategic issues as the Paris climate accord, Iran, Cuba and Russia. For purposes of this testimony, I will focus solely on the commercial aspects. As members of the Subcommittee are aware, the Trump Administration applied tariffs on imports of EU steel and aluminum on June 1, 2018. These tariffs were imposed using the national security-focused provisions of Section 232 of the Trade Expansion Act of 1962, despite the fact that most EU countries are NATO members and treaty allies of the United States. These tariffs affect $7.25 billion in imported steel and aluminum from Europe. In response, the EU imposed retaliatory tariffs on approximately $3.2 billion of U.S. exports to Europe, focused on politically sensitive items including motorcycles, bourbon, blue jeans, and orange juice. If the steel and aluminum tariffs are deemed to be WTO-inconsistent, the EU plans to impose retaliatory tariffs on $4 billion worth of additional U.S. exports.

When the steel and aluminum tariffs were announced, Chamber CEO Thomas J. Donohue said, "These new, unlawful, tariffs will directly harm American manufacturers, provoke widespread retaliation from our trading partners, and leave virtually untouched the true

problem of Chinese steel and aluminum overcapacity. Alienating our strongest global allies amid high-stakes trade negotiations is not the path to long-term American leadership."

Unfortunately, those predictions have come true. The imposition of tariffs on our closest allies has undermined American credibility and economic leadership. Europeans are angered to be deemed a national security threat to the United States. Moreover, these unilateral measures have hindered our ability to partner effectively with Europe — and others — to address our common challenges in the global economy.

The Administration's continued threat to impose 25% tariffs on imports of autos and auto parts from Europe is also of grave concern. We trade nearly 10 times as much in the auto sector as we do in steel and aluminum across the Atlantic. As such, new tariffs would mark a tenfold escalation of the trade dispute. According to the Center for Automotive Research, these tariffs would add nearly $7,000 to the price of each car or truck sold in America and lead to the loss of more than 700,000 American jobs.[1] As Chamber CEO Thomas J. Donohue has said:

> "The U.S. Chamber strongly opposes the administration's threat to impose tariffs on auto imports in the name of national security. If this proposal is carried out, it would deal a staggering blow to the very industry it purports to protect and would threaten to ignite a global trade war.
>
> In fact, the U.S. auto industry is prospering as never before. Production has doubled over the past decade, it exports more than any other industry, and it employs nearly 50 percent more Americans than it did in 2011. These tariffs risk overturning all of this progress.
>
> This isn't about national security. The administration has already signaled its true objective is to leverage this tariff threat in trade negotiations with Mexico, Canada, Japan, the European Union, and South Korea. These allies provide nearly all U.S. auto imports and are among America's closest partners. Neither they nor these imports endanger our national security in any way.
>
> The president's Section 232 authorities should not be abused in this way, and doing so only encourages other nations to do likewise."[2]
>
> In short, this is an inappropriate and unlawful use of this statute.

While a final decision on auto tariffs has been postponed for six months, the threat remains real and continues to erode trust between the United States and Europe. The EU has already preparing a list of more than $23 billion worth of U.S. exports that would be immediately subject to retaliation should the Section 232 auto tariffs be imposed. Given the increasingly tenuous state of global economic growth, such an expansion of trade tensions between the world's two largest economies would have a devastating effect.

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[1] https://www.cargroup.org/wp-content/uploads/2018/07/NADA-Consumer-Impact-of-Auto-and-Parts-Tariffs-and-Quotas_July-2018.pdf

[2] https://www.uschamber.com/press-release/us-chamber-statement-potential-auto-tariffs

It is important to note that while the United States has been applying new tariffs on America's friends and allies, the European Union has been negotiating new market opening agreements with dozens of its major trading partners. The EU concluded a new Economic Partnership Agreement with Japan that gives European producers and consumers preferential access to the Japanese market, with particular benefits for automakers and farmers. The EU has also concluded a new free trade agreement with Canada and upgraded its existing agreement with Mexico. In a number of markets, European exporters enjoy better access than U.S. companies do.

When it comes to China, the U.S. government, the Chamber, and Europe are aligned on the challenges. For too long, China has insisted on forced technology transfers or the formation of joint ventures for American or European companies to do business in China. The Chinese state often intervenes to provide unfair subsidies for Chinese businesses, making it hard for foreign investors to compete. Finally, China's state capitalist model and its active participation in the economy through dominant state-owned enterprises is fundamentally at odds with our market economy principles.

In a recent policy paper, the European Commission identified China for the first time as a "strategic competitor" and "systemic rival," underlining the need to work with the United States to safeguard core values. The United States must embrace this opportunity to work closely with Europe to update the rules of the World Trade Organization to ensure China abides by its international commitments. We should also pursue joint cases against China when they fail to meet those standards.

Pursuing a unilateral, tariff-driven approach is not the optimal way to effect lasting change in China. A coordinated approach working with Europe and other partners including Japan and Canada would be much more powerful.

Another potential flashpoint in the relationship concerns tax policy. Several European countries including France, the UK, Spain, and Italy are considering discriminatory digital services taxes that would disproportionately affect large U.S. companies. These measures would explicitly target certain sectors and tax revenues rather than profits. This would set a dangerous precedent.

In light of the changing nature of the global economy, an informed and inclusive discussion on how to modernize the international tax system is in order. Consideration of any measures to modernize the international tax system should occur in multilateral settings like the OECD and should be adopted only after constructive dialogue with stakeholders. Unilateral actions threaten transatlantic economic interests including bilateral trade and investment, erode trust, and undermine prospects for international agreement.

We look forward to working closely with Congress and the Administration to encourage a global solution to the challenges posed by digitalization and to avoid the Balkanization of tax policy that would have significant negative impacts on both U.S. companies and the revenue sent to the U.S. Treasury.

Building a Positive Agenda

The Chamber was among the earliest and most vocal proponents of the Transatlantic Trade and Investment Partnership negotiations. We regret that those negotiations were not concluded successfully, but remain eager to find ways to strengthen our relationship. Given the urgent need to make progress, we are encouraging both sides to proactively engage to remove tariff and non-tariff barriers to trade and investment, and to work more collaboratively on third country issues.

We also understand that any conversation about trade with the EU must tackle politically sensitive issues such as agriculture. It is understood that a trade liberalizing agreement that doesn't cover agriculture is a political non-starter in the Congress.

Last July, President Trump and European Commission President Juncker agreed to work towards a positive trade agenda that would lower transatlantic tariffs, remove many non-tariff barriers, and provide for closer cooperation on shared challenges such as the need to reform the World Trade Organization and tackle China's unfair business practices.

We are encouraged that the Administration has returned to the negotiating table. It is critically important that we find ways to work with our European partners rather than continuing down a dangerous path of tit-for-tat protectionism. As economies that together account for one-third of the world's GDP and half of global personal consumption, the United States and Europe together can shape the rules of global trade for the 21st century as no others can.

With that in mind, the Chamber has submitted comments to both the Office of the U.S. Trade Representative as well as the European Commission outlining ways that the business community thinks the United States and Europe can boost economic growth, foster the creation of good jobs, and enhance competitiveness through a reinforced partnership.

Here are a few of our suggestions.

U.S. and European policymakers should seize the opportunity to lower tariffs and non-tariff trade barriers—and oppose moves to raise tariffs or impose managed trade measures. While the Chamber advocates for comprehensive trade agreements that address not just trade in goods but also services, investment, procurement, and other issues, tariffs on industrial goods have recently been the chief focus of U.S. and EU officials.

Eliminating such tariffs would bring real benefits. Tariffs between the EU and the United States are comparatively low, but eliminating them could nonetheless generate substantial economic gains simply because the flow of commerce is so vast. As the Europe Center for International Policy Economy (ECIPE) wrote in a report entitled, *A Transatlantic Zero Agreement*, "The EU and U.S. economies are big, and bilateral trade is to a large degree composed of intra-firm trade. Both these factors suggest potential trade gains of great magnitude." The organization found that a U.S.-EU trade agreement that eliminated tariffs only

would boost U.S. exports to the EU by as much as $50 billion and would increase U.S. GDP by well over $100 billion.

U.S. and EU policymakers should also continue to promote discrete regulatory cooperation initiatives. The two sides should try to establish common standards where none yet exist and where both sides are considering new rules. For example, as the automotive industry shifts its focus to electric and autonomous vehicles, there are ample opportunities for transatlantic cooperation, including the development of smart infrastructure, new communications systems, and safety standards. Whenever possible, the U.S. and EU should also pursue mutual recognition of existing regulations in the many cases where our different approaches meet common regulatory objectives.

The two sides should also expand existing regulatory cooperation and data-sharing practices in the life sciences sector, covering pharmaceuticals, medical devices, and biotechnology. Such cooperation can proceed outside of a formal trade agreement, and should draw wherever possible on the work of voluntary, market-driven, and internationally recognized standards. Moreover, the United States and Europe should continue to support high-level intellectual property standards and work together to strengthen IP rights in third countries.

Build on our Shared Strengths

The United States and Europe are pacesetters in digitalization. As we develop strategies on cybersecurity and Artificial Intelligence, the two sides should continue to develop common approaches reflecting our shared democratic values and commitment to transparent multi-stakeholder processes. The Privacy Shield that facilitates cross-border data flows while protecting personal privacy must be re-affirmed to ensure commercial data can continue to be lawfully transferred across the Atlantic.

Moreover, we are encouraged that the Justice Department and the European Commission have begun negotiations under the terms of the CLOUD Act to ensure that law enforcement agencies have legal grounds to access personal data when necessary. Both sides must take steps to ensure the Internet remains globally connected and interoperable. As other markets consider approaches that would require data localization or advance digital protectionism, transatlantic cooperation to counter these measures is essential. Our interdependent digital economies and security depends on the ability of data to move across borders efficiently and safely.

In the energy sector, Congress should work with the Administration to develop rules that continue to facilitate exports of liquefied natural gas (LNG) to Europe. Meanwhile, Europe should step up efforts to build the necessary infrastructure to import LNG and to transfer it across the continent. This partnership is critical to countering Europe's overreliance on Russian energy. In the year since Presidents Juncker and Trump last met, the EU has increased its imports of LNG by over 270%, albeit from a very low base. We must build on this momentum.

Small and medium-sized companies stand to benefit most from continued efforts to improve ties between the U.S. and Europe, as they are most adversely affected by trade barriers. Both the U.S. and EU should build on existing initiatives to educate smaller firms about the

opportunities of transatlantic trade and make additional resources available to enable these firms to leverage them.

The U.S. and Europe also should work closely with stakeholders to create incentives to boost the circular economy and promote resource efficiency. Transatlantic cooperation on sustainable agriculture, energy, waste and water policies will make it easier for American and European firms to lead the way in addressing key resource challenges and a changing climate while also promoting economic growth and prosperity.

Finally, transatlantic defense and security cooperation remains a cornerstone of our alliance. The 70th anniversary of NATO's founding and the 75th anniversary of the D-Day landings are poignant reminders of that important fact. In light of a fast-changing global security environment, including new threats in the form of cyber-attacks and disinformation campaigns, transatlantic cooperation remains essential. As the EU works to boost its own strategic capabilities and defense resources, its efforts must be complementary to and coordinated with NATO's priorities. Any new European defense projects must allow for fair and transparent competition and ensure that U.S. companies have the chance to bid on new contracts.

Conclusion

The Chamber recognizes that trade disputes across the Atlantic are occurring against the difficult backdrop of several other non-commercial disputes between the U.S. and the EU, notably over sanctions on Iran, Russia, Cuba, and divergent approaches to the national security concerns related to Huawei and 5G communications networks. These challenges all have significant spillover effects on our economic relationship as well. We encourage the Subcommittee to continue engaging actively with the Administration as well as with European policymakers to address these issues in a collaborative fashion. Both the United States and Europe are more effective when we work together to address our common challenges.

The U.S. business community is firmly committed to a strong transatlantic relationship—which has brought considerable benefits to workers, consumers, and businesses of all sizes on both sides of the Atlantic. In an increasingly complex and competitive global economy, there can be no effective resolution of our shared economic challenges without robust engagement between the United States and Europe.

The Chamber and its members look forward to working closely with Congress to achieve these goals. Thank you.

Attachments to Testimony

I would like to submit the following reports to accompany my statement:

1) *The Transatlantic Economy 2019*
https://www.uschamber.com/report/the-transatlantic-economy-2019

2) *U.S. Chamber Negotiating Objectives for a U.S.-EU Trade Agreement*
https://www.uschamber.com/comment/comments-negotiating-objectives-us-eu-trade-agreement

3) *Driving the Strong Economic Relationship Between the U.S. and Europe*
https://www.uschamber.com/series/above-the-fold/driving-the-strong-economic-relationship-between-the-us-and-europe

4) *Transatlantic Business Works – Policy Priorities and Recommendations*
https://www.uschamber.com/issue-brief/transatlantic-business-works-policy-priorities-and-recommendations

Mr. KEATING. Dr. Bown.

STATEMENT OF CHAD P. BOWN, REGINALD JONES SENIOR FELLOW, PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

Dr. BOWN. Thank you, Mr. Chairman, ranking member, and the subcommittee for the invitation to be here today.

Several actions taken by the Trump administration over the last 2 years have severely strained trade relations between Europe and the United States, weakening the transatlantic backbone of the global rules-based trading system. But an even more worrisome threat to that relationship may be in the offing. It comes in the form of the President's warning that he may impose trade restrictions on tens of billions of dollars of imports from Europe of automobiles and automobile parts contending that they threaten America's national security. The national security threat is fanciful and Congress should amend existing statutes to constrain the executive branch's abuse of this power on trade.

No evidence supports the argument that imports of automobiles and parts from our closest European allies threaten America's national security. In fact, invoking Section 232 of the Trade Expansion Act of 1962 by declaring such a threat to justify trade restrictions would damage the U.S. economy, create uncertainty, poison trust, instill massive disruption through both retaliation and copycat behavior relying on this same flimsy rationale.

Three reasons demonstrate why imposing trade restrictions on European automobiles and parts would disrupt the American economy. First, American consumers would be hit by price hikes. Fiats, Volkswagens, and Volvos, amongst other brands, would become more expensive. And the reduced competition would inevitably raise prices of all cars regardless of the make and model.

Second, the American manufacturing base would lose access to imported auto parts that it needs to produce cars for both domestic consumption and export. Imported parts are vital for American-based auto plants to keep costs low for high-quality cars made in States like Alabama, Tennessee, and South Carolina. The facilities in these and other States makes some of America's most successful exports. Restricting trade in these parts would hurt these factories and their workers.

Third, Europe will retaliate. The European Union has announced it would impose counter tariffs on U.S. exports, a credible threat because it did so last year when President Trump imposed tariffs on their exports of steel and aluminum. Those European tariffs hit more than $3 billion worth of U.S. exports, hurting American farmers and businesses. It would be surprising if you have not already heard complaints from your districts. Among those suffering are corn farmers and makers of bourbon and whiskey, cosmetics, motor boats and yachts, peanut butter, playing cards, and motorcycles. I can name dozens of other products affected by that retaliation.

The example of Harley-Davidson illustrates the futility of the Trump administration's tariffs. Harley has announced in a Securities and Exchange Commission filing that Europe's counter tariffs mean it can no longer afford to produce motorcycles in the United States for sale in Europe. Harley-Davidson and many other U.S.

manufacturers know that 95 percent of their customers live outside of the United States' borders. By making it more expensive to make products for those customers, the Trump administration is forcing these companies to transfer manufacturing to some other country not hit by these cost increases.

Imposing trade restrictions on European autos would also exacerbate three additional policy concerns. First, such a step would likely end bilateral trade negotiations between the U.S. and the EU including talks on several vital issues such as regulations that constitutes the largest barrier to existing trade. Despite President Trump's colorful anecdotes, the tariffs the EU applies on imports from the United States are not one sided. They are comparable, in fact, to the average tariff the United States applies on imports from Europe, especially for manufactured products. But these non-tariff barriers to trade can only be tackled through regulatory cooperation. The process of doing so began under the Obama Administration through the Transatlantic Trade and Investment Partnership negotiations.

The Trump administration has, to its credit, continued some elements of that process. And a deal on conformity assessments would be an important next step for transatlantic trade, but new auto tariffs and counter tariffs would strangle that progress just as it holds promise of achieving results.

Second, imposing these tariffs would escalate tensions, impeding cooperation in other areas of vital joint interests. More, not less, cooperation is urgently needed between Europe and the United States on e-commerce, the internet, data localization, cybersecurity, a potential digital services tax, and many other hugely important areas of the new economy. The United States cannot afford to squander or disrupt any effort toward protecting consumers and businesses in the increasingly technologically sophisticated marketplace.

Third, the tariffs would further exacerbate the Trump administration's failure to take up the offer by Europe and other allies to resolve issues of mutual concern in other trade areas. The most serious, of course, is the administration's decision to confront its closest economic partners, including Japan as well as Europe, rather than enlisting them to put collective pressure on China. Going it alone on China may be doomed to fail.

But also important is the administration's disengagement on many issues that desperately need to be addressed to reform the World Trade Organization. Its current refusal to appoint new members to the WTO's appellate body is undermining a dispute resolution framework that has helped many U.S. businesses far more than it has set them back.

In sum, President Trump's threats to impose tariffs on imports of autos and parts from Europe must be taken seriously by Congress, if economically costly tariffs on steel and aluminum in 2018 make that current threat creditable. And frankly, Congress never intended Section 232 to be used for this purpose. Thus, Congress should legislate changes to Section 232, as well as the International Emergency Economic Powers Act, to require the President to seek its approval before imposing new trade restrictions in the name of national security.

Congress must recover from the administration its constitutional prerogative to reshape these laws so that they can no longer be abused. The executive branch should not be imposing costs and unnecessary uncertainty on the American economy, further eroding American policy leadership and hurting U.S. global economic and foreign policy interests by circumventing the authority of Congress to establish trade policy as the Constitution prescribed.

[The prepared statement of Mr. Bown follows:]

TRANSATLANTIC POLICY IMPACTS OF THE U.S. – EU TRADE CONFLICT

Statement by

Chad P. Bown

Reginald Jones Senior Fellow

Peterson Institute for International Economics

to the

Subcommittee on Europe, Eurasia, Energy, and the Environment

Committee on Foreign Affairs

United States House of Representatives

June 26, 2019

Several actions taken by the Trump administration over the last two years have severely strained trade relations between Europe and the United States, weakening the transatlantic backbone of the global, rules-based trading system. But an even more worrisome threat to that relationship may be in the offing. It comes in the form of the President's warning that he may impose trade restrictions on tens of billions of dollars of imports from Europe of automobiles and automobile parts, contending that they threaten America's national security. The national security threat is fanciful, and Congress should amend existing statutes to constrain the Executive Branch's abuse of power on trade.

No evidence supports the argument that imports of automobiles and automobile parts from our closest European allies—Germany, United Kingdom, Italy, Sweden and others— threaten national security. In fact, invoking Section 232 of the Trade Expansion Act of 1962 by declaring such a threat to justify trade restrictions would damage the US economy, create uncertainty, poison trust and sow massive disruptions through both retaliation and copycat behavior relying on the same flimsy rationale.

Immediate Impacts on the US Economy

Three reasons demonstrate why imposing trade restrictions on European automobiles and parts would disrupt the American economy.

First, American consumers would be hit by price hikes. Prices would rise for Fiats, Volkswagens, and Volvos, among other brands. The reduced competition would inevitably raise prices for all cars, regardless of the make and model.

Second, the American manufacturing base would lose access to imported auto parts it needs to produce cars for both domestic consumption and export. Imported parts are vital for American-based auto plants to keep costs low for high quality cars made in states like Alabama, Tennessee and South Carolina. The facilities in these and other states make some of America's most successful exports. Restricting trade in parts would hurt these factories and their workers.

Third, Europe will retaliate. The European Union has announced it would impose counter-tariffs on US exports—a credible threat because it did so last year when President Trump imposed tariffs on their exports of steel and aluminum, also under Section 232 of the Trade Expansion Act of 1962.

Those European tariffs hit more than $3 billion of US exports, hurting American farmers and businesses. It would be surprising if you haven't already heard complaints from your districts. Among those suffering are corn farmers, makers of bourbon and whiskey, cosmetics, motorboats and yachts, peanut butter, playing cards, and motorcycles. I could name dozens of other products affected by that retaliation.

The example of Harley Davidson illustrates the futility of the Trump administration's tariffs. Harley has announced in a Securities and Exchange Commission filing that Europe's counter-tariffs mean it can no longer afford to produce motorcycles in the United States for sale in Europe. Harley Davidson and many other US manufacturers know that 95 percent of their customers live outside of the United States. Making it more expensive to make products for those customers means the Trump administration is forcing them to transfer manufacturing to some other country not hit by these cost increases.

Implications for US Economic and Foreign Policy

The Trump administration imposing trade restrictions on European autos would exacerbate three additional policy concerns.

First, such a step would likely end bilateral trade negotiations between the United States and European Union. This would include talks on several vital issues, such as the regulations that serve as the largest barriers to trade. Despite the President's colorful anecdotes, the tariffs that the EU applies on imports from the United States are not one-sided. They are comparable to the average tariffs the United States applies to imports from Europe, especially for manufactured products. Existing tariffs do not restrict trade nearly as much as regulations do. These "non-tariff barriers" can only be tackled through regulatory cooperation. The process of doing so began during the Obama administration through the transatlantic trade and investment partnership negotiations. The Trump administration has, to its credit, continued some elements of that process. A deal on conformity assessments would be an important next step for transatlantic trade. New auto tariffs and counter-tariffs would strangle that progress just as it holds promise of achieving results.

Second, imposing these tariffs would escalate tensions, impeding cooperation in other areas of vital joint interest. More, not less, cooperation is urgently needed between Europe and the United States on ecommerce, data localization, cybersecurity, a potential digital services tax, and many other hugely important areas of the new economy. The United States cannot afford to squander or disrupt any effort toward protecting consumers and businesses in the increasingly technologically sophisticated marketplace. This is an incredibly big risk to take.

Third, the tariffs would further exacerbate the Trump administration's failures to take-up the offer by Europe and other allies to resolve areas of mutual concern in other trade areas. The most serious, of course, is the administration's decision to confront its closest economic partners, including Japan as well as Europe, rather than enlisting them to put collective pressure on China. Going it alone on China may be doomed to fail. Also important is the administration's disengagement on many issues desperately needed to reform the World Trade Organization. Its current refusal to appoint new members to the

Appellate Body is undermining a dispute resolution mechanism that has helped US businesses far more than it has set them back.

What Congress Should Do

In sum, President Trump's threats to impose tariffs on auto and parts imports from Europe must be taken seriously by Congress. His economically costly tariffs on steel and aluminum in 2018 make the current threat credible. Using Section 232 for this purpose was frankly never intended by Congress.

Thus, Congress should legislate changes to Section 232, as well as the International Emergency Economic Powers Act, to require the President to seek its approval before imposing new trade restrictions in the name of national security. In both of these statutes, Congress should also more clearly define "national security."

Congress must recover from the administration its Constitutional prerogative to reshape these laws so that they can no longer be abused. Imposing costs and unnecessary uncertainty on the US economy, further eroding American policy leadership, and hurting US global economic and foreign policy interests should not be carried out by the executive branch circumventing the authority of Congress to establish trade policy as the Constitution prescribes.

Mr. KEATING. Dr. Bromund.

STATEMENT OF THEODORE R. BROMUND, SENIOR RESEARCH FELLOW IN ANGLO-AMERICAN RELATIONS, MARGARET THATCHER CENTER FOR FREEDOM, THE HERITAGE FOUNDATION

Dr. BROMUND. Thank you, Mr. Chairman, ranking member. The views that I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

The U.S. imposition on tariffs on steel and aluminum imports from the EU in 2018, was both unwise policy and unwise economics. The EU retaliations, coupled with threats of additional U.S. tariffs in recent months in imports of cars in the EU are equally unwise. But as previous episodes and its intermittent conflict show now that the policy impacts of these tariffs nor their novelty should be exaggerated. The frequency and history of U.S.-EU trade tensions strongly implies that today's conflicts are likely to fade over time.

Unfortunately, they are likely to be replaced by new conflicts, some of which may already be visible. These tensions have in the past been caused or exacerbated by U.S. administrations with a strong commitment to free trade and to major U.S. post-war institutions such as NATO. There is therefore no reason to assume that these trade tensions today will inevitably lead to wider policy impacts beyond the realm of trade.

Thus, while we should work vigorously to lessen today's conflicts, there is no need for panic. What is lacking today in the EU as much as in the United States is leadership to make the simple and clear case for economic freedom. We need to emphasize the benefits that flow from free trade and free investment and we need to emphasize the fact that economic freedom means much more than just free trade.

A history of U.S. trade diplomacy with EU over the past decade is deeply ironic. The Obama Administration's Transatlantic Trade and Investment Partnership, the TTIP, were in favor with European leaders until they were pushed to reject it by their own outraged public. The Trump administration's tariffs, on the other hand, are opposed by European leaders but have not raised nearly the same level of public opposition in Europe that TTIP did.

Today, it appears that a big deal like TTIP is unsustainably unpopular in Europe, while smaller industrial goods only deal is unacceptable to the United States because it omits agriculture. The result, sadly, is that there is no easy resolution to be had of the U.S.-EU trade conflict.

However, the history of TTIP strongly suggests that the most dangerous thing the U.S. can do now is to respond to the current conflict by advocating the negotiations of a major U.S.-EU trade deal in the style of TTIP. There is no reason to believe that an effort to revive TTIP would not fan the same anti-Americanism that killed TTIP. Although the hostility engendered by TTIP by both sides of the Atlantic was deeply unfortunate, TTIP's approach was also, in my view, flawed because tariffs between the U.S. and the EU are already generally low, the majority of the gains in TTIP

would have come from reducing non-tariff barriers, NTBs, between the U.S. and the EU. TTIP's approach was to reduce the burdens imposed by differing U.S. and EU regulations over the short run or relying on regulatory harmonization over the long run. In time, the number of harmonized regulations would have grown and the amount of regulatory competition between the U.S. and the EU would have declined. But while reducing the burdens of differing regulations would have been good for today's businesses, it would have been less good for tomorrow's businesses. The harmonized regulations would have tended to prevent new competitors from entering the harmonized transatlantic market. Harmonization around a costly standard of regulations may eliminate the burden caused by a lack of harmonization, but it does not eliminate the burden of the regulations themselves.

TTIP's flaws, however, do not mean the Trump administration has chosen precisely the right approach. Its zero tariffs, zero NTBs, zero subsidies goal is the correct one and its commitment to an ambitious U.S.-U.K. free trade area post-Brexit is laudable, but it has not found a successful diplomatic strategy to convince the EU to negotiate a genuinely zero, zero, zero agreement and includes agriculture. Furthermore, its chosen instrument of tariffs is both damaging to the U.S. consumer and raises wider concerns about its commitment to the U.S.'s post-war supports for free trade.

The zero, zero, zero goal and that wider commitment would have more credibility if the administration can point to a major negotiating success that involved a new trading partner, not merely the renegotiation of existing U.S. trading agreements. It is therefore good that the U.S. has emphasized its support for a U.S.-U.K. FTA which offers a single best opportunity to negotiate an ambitious new agreement.

While tariffs do matter, greater risk to free trade and thus the economic growth are non-tariff barriers, an area where the U.S. is not guiltless, but where EU regulations poses greater risk. The U.S. should firmly adopt the position that the only acceptable level of tariff protection is zero. It should also move rapidly to negotiate ambitious free trade areas with partners such as the U.K. after Brexit would share its understanding that regulation imposes costs that are just as real and much larger than the tariffs on which the current U.S.-EU trade tensions have focused. Thank you very much.

[The prepared statement of Mr. Bromund follows:]

CONGRESSIONAL TESTIMONY

Transatlantic Policy Impacts of the U.S. – EU Trade Conflict

Testimony before
Foreign Affairs Subcommittee on Europe, Eurasia, Energy, and the Environment

United States House of Representatives

June 26, 2019

Theodore Richard Bromund
Senior Research Fellow, Margaret Thatcher Center for Freedom
The Heritage Foundation

My name is Theodore Richard Bromund. I am the Senior Research Fellow in the Margaret Thatcher Center for Freedom in the Davis Institute for National Security and Foreign Policy at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

Introduction
The U.S. imposition of tariffs on steel and aluminum imports from the EU in 2018, followed by proportionate EU retaliations, coupled with the threats of additional U.S. tariffs in recent months on imports of cars, was both unwise policy and unwise economics. But as previous episodes in this intermittent tariff conflict show, neither the policy impacts of these tariffs nor their novelty should be exaggerated. While tariffs do matter, the greater risk to free trade – and thus to economic growth – are non-tariff barriers, an area where the U.S. is not guiltless, but where EU regulation poses greater risks. The U.S. should firmly adopt the position that the only acceptable level of tariff protection is zero, and should move rapidly to negotiate ambitious free trade areas with partners, such as the United Kingdom after Brexit, which share its understanding that regulation imposes costs that are just as real, and much larger, than tariffs.

The Current U.S.-EU Trade Conflict
The U.S. imposition on June 1, 2018 of tariffs on imports of steel (25%) and aluminum (10%) affected 6.4 billion euro worth of EU goods. The EU retaliated with proportionate measures on June 22, 2018, affecting 2.8 billion euro worth of highly symbolic U.S. imports, including tobacco, bourbon whiskey, and peanut butter. Recent months have seen a pending threat to impose 25% tariffs on imports of cars from the EU, and a threat to impose tariffs on a variety of imports from the EU to compensate for $11 billion in claimed damages from illegal EU state aid to Airbus.

These Tariffs Are Unwise Policy

The Administration has consistently argued in its own defense that, as the March 2019 *Economic Report of the President* puts it "Tariffs provide benefits as well as costs."[1] There are four basic reasons why the Administration's position on tariffs is unwise:

1. **Spurious Justifications.** The steel and aluminum tariffs were imposed under the President's authority under Section 232 of the Trade Expansion Act of 1962. In other words, they were justified explicitly on national security grounds. But as my colleagues Tori Whiting and Rachel Zissimos put it in June 2017, a year before the tariffs were imposed, "unlike dependence on Russian rocket engines (for which few alternatives exist) or Chinese microchips (which can be infected or counterfeited), steel imports do not present the same vulnerabilities or technological sensitivities. There is not an inherent threat in steel imports, but rather a vague concern regarding availability of supply."[2]
2. **Unwise Reliance on Section 232**. The use of Section 232 itself is both unwise and relatively uncommon. There have been only 26 investigations under Section 232 since 1962, and 19 of these resulted in a determination that the import in question did not pose a threat to national security or resulted in no presidential action. Moreover, while the Trade Expansion Act of 1962 was indeed broadly effective in promoting free trade, Section 232 represented another damaging transfer by Congress of powers to the Executive Branch. This is a problem much bigger than tariffs and trade. Anyone who is opposed to the President's use of his legal authorities – and make no mistake: the use of Section 232 is legal, though unwise – to impose tariffs ought to be equally opposed to the wider delegation of Congressional powers to the Executive Branch that forms the basis of the modern administrative state.
3. **Higher Domestic Costs**. The 2019 *Economic Report of the President* celebrates the fact that the "The Federal government benefited from $14.4 billion in revenue collected in 2018 from newly imposed tariffs."[3] This revenue gain, derived from tariffs wider than those on the EU, represents a transfer of a sizable sum from the U.S. consumer to the federal government, as – contrary to the views often expressed by the President – it is the U.S. consumer, not the foreign exporter, who pays the tariffs. Studies of past U.S. tariffs have consistently found that they cost far more U.S. jobs than they created, and as the administrations claims only an increase of a mere 100 jobs in alumina and aluminum production, and 6,200 jobs in the steel industry, there can be little doubt that the 2018 tariffs will also cost U.S. jobs.
4. **Foreign Policy Pressures**. There are reasons to be profoundly skeptical about claims that the 2018 tariffs represent a new and unparalleled low in trade relations between the U.S. and Europe. On the contrary, the evidence of the past suggests that trade tensions are not new, and represent a normal, if unwelcome, part of the trans-Atlantic relationship. In other words, there is cause for concern, but not for panic. On the other hand, the cumulated picture of U.S. tariff and trade policy since 2017 makes the U.S.-European tensions look worse. To put it simply, the administration's willingness to resort to tariffs in its trade relations with China – which poses different challenges than those presented by the EU – coupled with its lack of

[1] *Economic Report of the President, Together with The Annual Report of the Council of Economic Advisers*, March 2019, p. 496, https://www.whitehouse.gov/wp-content/uploads/2019/03/ERP-2019.pdf

[2] Tori Whiting and Rachel Zissimos, "Steel Imports Do Not Threaten National Security," The Heritage Foundation *Issue Brief* #4719, June 16, 2017, https://www.heritage.org/trade/report/steel-imports-do-not-threaten-national-security.

[3] *Economic Report of the President, Together with The Annual Report of the Council of Economic Advisers*, March 2019, p. 496.

substantive achievements in negotiating new trade agreements that clearly advance the cause of free trade, make the trade tensions with the EU look less like another episode of unwelcome trans-Atlantic history, and more like a concerted retreat from the policy of free trade as such. This, in turn, means that the tensions over trade raise wider concerns about foreign policy, and the U.S.'s commitment to institutions beyond those related to trade.

Past U.S.-European Trade Tensions

Space does not permit a complete history of U.S-European trade disputes. But the basic point is that, on their own, the current disputes are either continuations of long-running ones, or examples of new disputes that more or less mirror ones of the past. Example include:

1. **The 'Chicken Tax'**. In 1962, when implementing the European Common Market, the European Community – the predecessor to today's EU – denied access to U.S. chicken producers. In retaliation, the U.S. in 1964 imposed tariffs of 25% on imports of light trucks from all countries, a tariff that survives today, 55 years later.
2. **The Boeing-Airbus Saga**. Since 2004, a lengthy dispute between the U.S. and the EU over subsidies to Boeing and Airbus has roiled the World Trade Organization, with both sides – though the EU more than the U.S. – being found guilty of breaking the rules. This dispute has over the years certainly generated more heat than the 2018 tariffs.
3. **The Steel Tariffs.** In March 2002, President George W. Bush imposed tariffs on imported steel, leading to threats of EU retaliation through tariffs on $2.2 billion in U.S. goods ranging from Florida citrus products to Harley Davidson motorcycles. At the time, the U.S. move produced enormous criticism from Europe – and elsewhere – and was regarded as the start of a trade war, which was averted when U.S. lifted the tariffs in 2003.

Ironically, in retrospect, the U.S. administrations that took these steps – primarily the administrations of Lyndon Johnson and George W. Bush – look today like traditional advocates of the U.S.'s post-war policy of support for free trade, not protectionists. The same is true of administrations involved in tariff or trade disputes that did not relate to Europe, such as the Reagan administration's voluntary restraints on Japanese car exports to the United States in the early 1980s.

None of this makes these disputes desirable, or the new tariffs welcome, but it does strongly suggest that we should not panic or proclaim that the sky is falling because the U.S. and the EU have imposed tariffs on each other. They have both done it before, and the regrettable likelihood is that they will both do it again. The fact is that these sort of disputes, by themselves, are the occasional stuff of relations between advanced democracies, and that administrations that in retrospect are regarded as having traditional post-war trade policies have regularly engaged in them.

The Proclaimed Zero/Zero/Zero Trade Goal

The problem with the current trade conflict with the EU is not that it is unprecedented. It is that it is the result of a policy that is unwise, and which so far has not resulted in agreements that justify the use of tariffs as a weapon to compel the other side to the negotiating table. It is true that the administration has signed a revised U.S.-South Korea Free Trade Agreement in September 2018, and a revised U.S.-Mexico-Canada Agreement in November 2018, but Heritage analysis of the

revised South Korean agreement characterized it as achieving "no major changes."[4] Moreover, the U.S. and the EU have no trade agreement to renegotiate, and it is likely easier to compel a trade partner to renegotiate a mutually beneficial agreement by threatening to tear it up than it is to compel such a partner to negotiate such an agreement in the first place.

On the other hand, the administration's proclaimed goal of zero tariffs, zero nontariff barriers, and zero subsidies is certainly the correct one. But one of the most disappointing, and revealing, episodes in the recent history of this trade dispute has been the sparing around this goal. At the G-7 Summit in Quebec in June 2018, the President reiterated his zero/zero/zero goal. When EU Trade Commissioner Cecilia Malmstrom responded in August with the statement that the EU is "willing to bring down even our car tariffs to zero, all tariffs to zero, if the U.S. does the same," the President said the offer was "not good enough," because EU "consumer habits are to buy their cars, not to buy our cars." While there are elements of truth in this statement, it is beyond the power of U.S. trade policy, or for that matter of European governments, to change the buying preferences of European consumers.[5]

But the EU's response has been just as disappointing as the President's. In concluding a détente on possible car tariffs in July 2018, the U.S. and the EU agreed to negotiate an agreement to eliminate tariffs on non-auto industrial goods, and another on non-tariff barriers. But when in April 2019 the EU approved the start of these negotiations, it did so over the opposition of France and an abstention from Belgium, and did so with the specific and clear stance that agriculture would not be included.

As Malmstrom put it, "Agriculture will certainly not be part of these negotiations. That is a red line for Europe." The U.S. position, as U.S. Trade Representative Robert Lighthizer, is one of frustration with the "complete stalemate" with the EU on agriculture.[6] Eliminating tariffs on non-auto industrial goods would be a major gain for the U.S. economy (and that of the EU), but so would an end to the EU's agricultural protectionism. Coupled with the signs of French and Belgian reluctance, the new U.S.-EU negotiations are starting to look a lot like the failed Transatlantic Trade and Investment Partnership (TTIP) negotiations that floundered in 2016.[7]

The European Unpopularity of TTIP

[4] Tori Whiting, "Analyzing the Renegotiated U.S.-Korea Free Trade Agreement (KORUS)," Heritage Foundation *Backgrounder* #4838, April 13, 2019, https://www.heritage.org/trade/report/analyzing-the-renegotiated-us-korea-free-trade-agreement-korus.

[5] David Reid, "EU Trade Boss Says Brussels is Ready to Scrap Car Tariffs If US Does the Same," *CNBC*, August 30, 2018, https://www.cnbc.com/2018/08/30/eus-malmstrom-says-brussels-ready-to-scrap-car-tariffs-if-us-does.html, and Philip Blenkinsop, "EU Deeply Disagrees with U.S. on Trade Despite Détente," *Reuters*, August 30, 2018, https://www.reuters.com/article/us-usa-trade-eu/eu-deeply-disagrees-with-u-s-on-trade-despite-detente-idUSKCN1LF1E0.

[6] Philip Blenkinsop, "EU Says It is Ready to Launch U.S. Trade Talks, But Without Agriculture," April 15, 2019, *Reuters*, https://www.reuters.com/article/us-usa-trade-eu/eu-says-it-is-ready-to-launch-u-s-trade-talks-but-without-agriculture-idUSKCN1RR0OZ.

[7] "Macron "Not In Favor" of "Vast New Trade Deal" with US," *RTE*, July 27, 2018, https://www.rte.ie/news/world/2018/0727/981357-eu-us-trade-deal/

It is commonly believed that it was the election of President Trump that led to the collapse of TTIP. In fact, it was actually the EU that put the talks "on ice" before elections in France and Germany, on the grounds that the TTIP talks were deeply unpopular in Europe.[8]

This unpopularity has not been sufficiently appreciated in the U.S. A poll by YouGov for the Berteslmann Foundation in April 2016 found that "only one in five Germans think TTIP is a good thing, down from 55 percent in 2014." Only half of the German public considered free trade a good idea, and a quarter rejected it completely. Levels of opposition were just as high in Austria, and only slightly lower in France, which in August 2016 demanded an end to the negotiations on the grounds that there was "no longer any political support" in Paris for TTIP. An umbrella group of anti-TTIP activists collected more than 3 million signatures across Europe in opposition to TTIP.[9]

Ironically, the cause of the most divisive recent moment in trans-Atlantic trade was not U.S. tariffs, but the U.S.'s and the EU's efforts to negotiate a free trade area. One scholarly study has pointed out that "both German business and the wider public voiced fierce opposition to . . . . TTIP [which] became a flash point for the German public to overcome collective action problems and create a broad protest movement against a free trade agreement for the first time in German history."[10] Or, as a representative of the German Marshall Fund put it at the time of President Barack Obama's visit to Hanover in April 2016, "there's a limit to what the U.S. side can to help convince a skeptical German public." [11]

In short, the history of U.S. trade diplomacy with the EU over the past decade is deeply ironic. The Obama Administration's TTIP won favor with EU leaders until they were pushed to reject it by their own outraged publics, while the Trump administration's tariffs are opposed by EU leaders but have not raised nearly the same level of public and campaigning opposition as TTIP. The implication appears to be that a big deal like TTIP is unsustainably unpopular in Europe, while a smaller industrial goods only deal is unacceptable in the U.S. because it omits agriculture. The result is that there is no easy resolution to be had of the U.S-EU trade conflict, as no matter what approach is tried, a deadlock is reached that ends up blocking progress and raising precisely the wider concerns about the systemic health of free trade that resulted from the collapse of TTIP and the 2018 tariffs.

The Unwise Approach of TTIP

While the specific criticisms leveled at TTIP were unfair, and infected with an aggressive anti-Americanism, the fact remains that, in both concept and approach, the approach TTIP took was just as unwise as the 2018 tariffs.

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[8] Darrell Delamiade, "Trump May Have a Point About EU Tariffs, IFO Says," *Handelsblatt Today*, March 15, 2018, https://www.handelsblatt.com/today/politics/unfree-trade-trump-may-have-a-point-about-eu-tariffs-ifo-says/23581496.html?ticket=ST-770784-cEV3ioOVvdGAuGpaar3g-ap6

[9] Siobhän Dowling, "How TTIP Reached a Tipping Point," *Handelsblatt Today*, April 22, 2016, https://www.handelsblatt.com/today/politics/opposition-movements-how-ttip-reached-a-tipping-point/23537458.html#wt_eid=2156112367858420225&wt_t=1561138236924 and "France Demands End to TTIP Talks," *Euractiv*, August 30, 2016, https://www.euractiv.com/section/trade-society/news/paris-to-demand-an-end-to-opaque-ttip-negotiations/

[10] Alexsia T. Chan and Beverely K. Crawford, "The Puzzle of Public Opposition to TTIP in Germany," *Business and Politics*, Volume 19, Special Issue 4, December 2017, pp. 683-708.

[11] Siobhän Dowling, "How TTIP Reached a Tipping Point."

In concept, TTIP was intended to be an all-inclusive deal. TTIP was framed as a "comprehensive," "ambitious" undertaking that would "move forward fast" and "make rapid progress." The only thing that actually happened rapidly, however, was that the air went out of the balloon. Largely because of opposition from the left, the Obama Administration's interest—which was never robust—in promoting the free-trade agenda waned considerably after TTIP was launched in 2013. The slackening of the Administration's enthusiasm for the TTIP and the precedent of the failed Doha Round only emphasize the difficulties inherent in negotiating a comprehensive trade agreement. In retrospect, the approach that the U.S. and the EU are now warily eyeing, an approach that favors limited agreements, appears the wiser one, no matter what negotiating difficulties it presents.

Unfortunately, TTIP was also flawed in its approach. Because tariffs between the U.S. and the EU are already low on average, the majority of the gains from TTIP would have come from reducing non-tariff barriers (NTBs). The central risk of TTIP was that the quest to eliminate non-tariff barriers to trade would turn into a supranational exercise in rolling the lawn, whereby any national difference would be treated as something that must be eliminated, even if that difference promoted economic freedom. TTIP's approach was one of applying a variety of mechanisms to reduce the burdens imposed by differing U.S. and EU regulations over the short run while relying on harmonization, led by a U.S.–EU institution, over the long run. In time, the number of harmonized regulations would grow, and the amount of regulatory competition between the U.S. and the EU would decline.

But in practice, while reducing these burdens would have been good for today's businesses, it would not likely have been good for tomorrow's business, because the harmonized regulations favored under TTIP would have tended to prevent new competitors from entering the much larger, and harmonized, trans-Atlantic market. In other words, harmonization around a high and costly standard of regulation may eliminate the burden caused by a lack of harmonization, but it does not eliminate the burden of the regulations itself – estimated by one 2009 study to amount to 12.3% of the EU's GDP annually – especially for new market entrants who play no role in shaping the regulations.[12] While defenders of TTIP frequently offered the justification that it was an essential part of countering China's push into the world trading system, that does not make locking in a high level of regulatory costs in the U.S. economy a desirable goal for U.S. trade policy.[13]

The Risks of the EU's Trade Policy – And the Alternative

While attention has focused – naturally and to an extent rightly – on U.S. tariff and trade policy, it has tended to neglect the risks of the EU's trade policy, and the extent to which it promotes trade that is neither free nor fair. The EU simply rejects freeing the trade in agricultural goods, as demonstrated by its exclusion of agriculture from the current talks with the U.S. But the risks of the EU's trade policy are much wider than agriculture. These risks include:

[12] Tim Ambler, Francis Chittenden, and Asif Bashir, "Counting the Cost of EU Regulation to Business," Eurochambres, 2009, https://www.eesc.europa.eu/resources/docs/costregulation_2009_bis-2009-00286-01.pdf
[13] Theodore Bromund, Luke Coffey, and Bryan Riley, "The Transatlantic Trade and Investment Partnership (TTIP): Economic Benefits and Potential Risks," Heritage Foundation *Backgrounder* #2952, https://www.heritage.org/trade/report/the-transatlantic-trade-and-investment-partnership-ttip-economic-benefits-and, and Nile Gardiner, Theodore Bromund, and Luke Coffey, "The Transatlantic Trade and Investment Partnership (TTIP): The Geopolitical Reality," Heritage Foundation *Backgrounder* #2953, https://www.heritage.org/trade/report/the-transatlantic-trade-and-investment-partnership-ttip-the-geopolitical-reality

1. **The German Problem.** Any major U.S.-EU trade agreement is going to redound significantly to the benefit of Germany, simply because the U.S. is the largest purchaser of German exports outside the EU and Germany is the U.S.'s most important trading partner in Europe. It is certainly not a bad thing to give Americans greater freedom to buy from efficient and successful German industries. But if Germany continues to pile up trade surpluses at the expense of importing more from the rest of the Eurozone, it will only exacerbate the instability of the euro currency. In other words, an ambitious U.S.-EU trade agreement is likely over time to make the existing economic imbalance in the EU even worse.
2. **EU Protectionism**. One of the weaknesses of the U.S. approach of imposing tariffs on EU exports is that it tends to conceal the extent to which – in practice – U.S. exports to the EU suffer more from EU protectionism than EU exports suffer from U.S. protectionism. The IFO Center for International Economics, a leading Munich-based think tank, pointed out that the unweighted EU average customs duty is 5.2%, almost 50% higher than the U.S. rate of 3.5%. It summed up: "Overall, tariffs totaling $5.7 billion were levied on US exports to the EU in 2015. The far greater volume of EU exports into the US were subject to customs duties of just $7.1 billion. This does not even take into account the inhibitory effect of the higher EU tariffs on the volume of US exports."[14] In short, while the U.S.'s new tariffs make this an awkward point to argue today, the fact remains that – even by the very partial and hence somewhat outdated measure of tariffs – the U.S. likely suffers more from EU protectionism than the EU does from U.S. protectionism.
3. **European Champions**. Important voices in Europe are now championing the creation of European economic champions, and closer government/business coordination, along the lines of Airbus, as an explicit reaction to U.S. and Chinese dominance of lists of the world's largest firms. In February, German Economics Minister Peter Altmaier proposed a national economic strategy that would protect so-called vital industries from foreign takeovers and competition, saying that "I am a great supporter of the market economy. But this market economy is now being challenged internationally is threatened by subsidies and protectionism."[15] Given the long-running battle between the U.S. and the EU over Airbus's EU subsidies, arguments that the EU needs to follow the Airbus precedent are a bad omen for U.S.-EU trade.
4. **Restrictions on Foreign Investment**. In December 2018, Germany agreed on new rules to lower the threshold for, and even for blocking, the sale of stakes in German firms by non-European investors. Undoubtedly the concerns that motivated these rules center on China, and parallel the U.S.'s Committee on Foreign Investment in the United States (CFIUS), and to a significant extent are legitimate. But the Association of German Chambers of Industry and Commerce commented that the threshold sent "a negative signal to foreign partners." The U.S. – and all other non-European investors – will have to watch carefully to make sure that this threshold requirement does not operate against legitimate investments.
5. **The Defense Trade**. The Administration has publicly expressed its concerns that the European Defense Fund and the Permanent Structured Cooperation (PESCO) project "would limit U.S. and other third parties outside of the EU in terms of participating in programs moving forward," commented Ellen Lord, Undersecretary of Defense for Acquisition and

[14] Darrell Delamiade, "Trump May Have a Point About EU Tariffs, IFO Says."
[15] Daniel Michaels, "Europe Again Champions Intervention to Counter China's Economic Might," *Wall Street Journal*, February 19, 2019, https://www.wsj.com/articles/europe-again-champions-intervention-to-counter-chinas-economic-might-11550572200.

Sustainment, on June 17, 2019: "As we read the language right now, even European-based subsidiaries of U.S. corporations with European facilities or European employees would not be allowed to participate."[16] Given the existence of Buy America provisions in the defense realm such as Berry Amendment, the U.S. does not have clean hands itself in this regard.[17] Nevertheless, the answer to unwise old U.S. protectionism in the defense realm is not new EU protectionism.

6. **Financial Services Regulations**. The EU is a believer in top-down regulations. Nothing illustrates this better than its MiFID II (Market in Financial Instruments Directive), which recently passed its one year anniversary. The issue is not the regulation of financial markets. It is that MiFID, containing more than 1.4 million paragraphs of rules, "represents," in the words of analyst Farnoush Farsiar, "regulation at its most intrusive and inflexible. Different jurisdictions with different financial services industries should be differently regulated." The UK has already signaled that, in the words of the chief executive of the Financial Conduct Authority Andrew Bailey, it could evolve an "outcome focused" and "lower burden" approach to financial regulation after leaving the EU that would still allow it to maintain "equivalence" with other jurisdictions.[18] This is a very hopeful sign, because it implies the openness of U.K. authorities to regulate in ways that, while remaining effective, seek to reduce the burdens on markets. It should be remembered that the only kind of trade that deserves to be called freer trade is trade that reduces the effective costs of government restraints on the trade in question.

In short, the future of the U.S.-EU trade relationship is cloudy, not only because of the 2018 tariffs, but because the there appears to be no way to break the current deadlock that makes a large TTIP-style agreement both impossible and unwise to negotiate. On the other hand, a series of smaller agreements liberalizing agricultural trade and industrial goods, and genuinely reducing non-tariffs barriers, would be desirable, but the EU's resistance to including agriculture appears to foreclose this possibility too. In these circumstances, the existing disagreements, coupled with emerging new ones in the defense sector and potentially in other areas of German or EU activity, mean that the U.S. would be well advised both to stop imposing tariffs, but also to stop pressing at a door that appears unlike to open.

The alternative is to look for other doors that are – or soon will be – open. There are many such possibilities, including negotiations for a free trade area with Japan. But the U.S. has made its single biggest commitment to negotiating broadly and ambitiously with post-Brexit Britain.[19] One of the many up sides of Brexit is that – presuming the U.K. exits the EU without adopting Prime Minister Theresa May's Withdrawal Agreement, which would profoundly constrain its ability to negotiate

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[16] Jon Harper, "Paris Air Show News: EU Defense Programs Have Trump Administration Talking Retaliation," *National Defense Magazine*, June 17, 2019, http://www.nationaldefensemagazine.org/articles/2019/6/17/trump-administration-considering-restricting-european-access-to-us-defense-market

[17] Tori K. Whiting, "'Buy American' Laws: A Costly Policy Mistake That Hurts Americans," Heritage Foundation Backgrounder No. 3218, May 18, 2017, http://www.heritage.org/trade/report/buy-american-laws-costly-policy-mistake-hurts-americans.

[18] Farnoush Farsair, "Financial Services Will Enjoy A Brexit Boom If the Regulators Let Us Take Advantages of the Opportunities It Presents," *BrexitCentral*, June 16, 2019, https://brexitcentral.com/financial-services-will-enjoy-a-brexit-boom-if-the-regulators-let-us-take-advantage-of-the-opportunities-it-presents/.

[19] "Why the U.S. Is Right to Back the 'Mini-Deal Brexit'," Heritage Foundation *Issue Brief* #4971, June 20, 2019, http://report.heritage.org/ib4971.

freely – it will create a major new player on the world's economic and trading scene. This in turn creates several opportunities. Of course, it opens to the door to the negotiation of a U.S.-U.K. free trade area, a completely logical institution that would undoubtedly exist today if the U.K. had not joined the European Communities in 1973. Such a free trade agreement is not only logical: thanks to the efforts of eleven free-trade supporting think tanks on both sides of the Atlantic, a text of an agreement already exists today, ready for adoption.[20]

But the arrival of the U.K. as an independent player offers an even greater prize. Today, it is becoming a commonplace that the world will be divided up into spheres of trading influence – either a Chinese sphere and a Western one, or a U.S. sphere, a European one, and a Chinese one. This is not a vision of the future that the U.S. should welcome. It is profoundly in our interests to make sure that all the great trading nations – and the smaller ones – resist these tendencies. Unfortunately, there is relatively little that the smaller nations can do to preserve flexibility and freedom in the system. But the U.K., as the fifth largest economy in the world, has the potential to sit outside all the main blocks, and to work constructively with all them. The goal of U.S. trade diplomacy towards the U.K., therefore, should not be to incorporate it into a U.S. bloc: it should be to ensure that the U.K. is not part of the European bloc, and that the U.K. has the freedom to negotiate as its national interests dictate. In many cases, this will see the U.K. align itself with the U.S. But, just as the U.S. did during the Cold War, we have more to gain from preserving freedom within the ranks of our allies than we do from ensuring that all of our allies agree with us all of the time.

Conclusion

The frequency and history of U.S.-EU trade tensions strongly implies that today's conflicts are likely to fade – and, unfortunately, be replaced by new ones, some of which may already be visible – over time. These tensions have in the past been caused, or exacerbated, by U.S. administrations with a strong commitment to free trade, and to major post-war institutions such as NATO, and while that is no reason not to work vigorously to lessen today's conflicts, it also implies there is no need for panic. What is lacking today, in the EU as much as in the U.S., is leadership which makes a simple and clear case for economic freedom, the benefits which flow from it, and the fact that economic freedom means much more than just free trade.

The history of TTIP strongly suggests that the most dangerous thing the U.S. could do – the way the U.S. could make the policy impacts of the current U.S-EU trade conflict even worse – is to respond to today's conflict by advocating the negotiation of a major U.S.-EU trade deal in the style of TTIP. Whether the popular concerns that sank TTIP in Europe are justified or not, the fact remains that they exist, and there is no reason to believe that an effort to revive TTIP would not fan the same anti-Americanism that sank TTIP in Europe. The fact that TTIP's approach of regulatory harmonization was tailor-made to favor high regulatory costs and existing businesses – at the expense of new entrants into the market – also offers a sound policy reason to reject TTIP's approach.

But that does not mean that the right approach is the precise one the U.S. administration has chosen. Its zero/zero/zero goal is the correct one, and its commitment to an ambitious U.S.-U.K. free trade area post-Brexit is laudable. But it has not found a successful diplomatic strategy to convince the EU to negotiate a genuinely zero/zero/zero agreement that includes agriculture, and its chosen

[20] Daniel J. Ikenson, Simon Lester, and Daniel Hannan, "The Ideal U.S.-U.K. Free Trade Agreement: A Free Trader's Perspective," *Cato Institute,* September 18, 2018, https://www.cato.org/publications/white-paper/ideal-us-uk-free-trade-agreement-free-traders-perspective.

instrument of tariffs is both damaging to the U.S. consumer and raises wider concerns about its commitment to the U.S.'s post-war support for free trade. The zero/zero/zero goal, and that commitment, would have more credibility if the administration could point to a major negotiating success that involved a new trading partner, not the renegotiation of an existing agreement. It is therefore all to the good that the U.S. has set out its stall so strongly on the goal of a U.S.-U.K. free trade agreement, which offers the single best opportunity to negotiate a major ambitious new agreement.

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Mr. KEATING. Thank you, Dr. Bromund. I will now take this 5 minutes to ask my own questions. There is some differences of opinion, there is some differences to be worked out with the EU and the United States, but in my mind there is one thing that just is without question and perhaps the most serious problem that we have that we are addressing in the current climate now. And it can be summed up in one word, uncertainty. Uncertainty. The tariffs that have been imposed and the stops and go and the threats for escalation have done nothing but create an uncertain environment. That has a tremendous cost economically as Dr. Hamilton mentioned in terms of opportunity and it has enormous costs in terms of the relationship and a coalition that is there that is also based on security.

So if you could take just a second and comment on the real danger of creating this uncertainty and the damage that it is doing. Dr. Hamilton.

Mr. HAMILTON. Thank you, Mr. Chairman. As I mentioned, I agree with you fully and we see that in the numbers if you look at trends of investment coming into the United States from Europe, which I mentioned is by far the largest investor in the United States. Over the last couple of years European-souced investment into the United States has been going down. When you talk to many of those companies they say they do not quite know whether they should make that commitment, given the great uncertainty characterizing the U.S. domestic situation. And that has considerable impact on local communities in terms of all the spillovers that I mentioned.

There is a second issue related to uncertainty, and that is we do not know where the transatlantic relationship is going.In a world economy that has had to accommodate four billion new workers in recent decadesm and in whic rising powers do not necesserily agree with the rules-based orders that we created together with Europem the window is simply closing on our ability to shape these rules if we squences this moment. Time is not neutral.

Mr. KEATING. And there is a vacuum, if I could interrupt. There is a vacuum that is there that will probably be filled with China and countries that do not share those concerns. Is that correct?

Mr. HAMILTON. We spend our time squabbling with each other rather than turning to each other to make sure we are the rulemakers and not the rule takers. That is where the stakes are these days.

Mr. KEATING. If I could, too, I just want to hit another issue—I do not exactly share the same views as Dr. Bromund on these factors. Another concern about the relationships, that is what made me think of this. I think if we pursue even though logistically it cannot be done, I do not think from a practical basis right off the bat, but even the discussion of talk of, for instance, splitting off and doing a bilateral agreement with U.K., U.S. to try and deal with the Brexit issue and turn our back in the process on 80 percent of our exports, the rest of Europe. I think that creates a problem, serious problem, going forward, too.

Ms. Chorlins, would you like to comment on that?

Ms. CHORLINS. Mr. Chairman, I agree with you completely, specifically with respect to the idea of a U.S.-U.K. free trade agree-

ment, you are absolutely right. Practically speaking, until we know the terms of the U.K.'s departure from the EU, and the nature of its future relationship, it is really impossible for the U.S. to negotiate a new relationship with the U.K.

Uncertainty is indeed the greatest concern that the business community has. We have that in the context of Brexit in the U.K. and we also have it in the context of the direction of the transatlantic relationship. This affects investment decisions. This affects supply chains. This affects movement of people. This affects movement of data. All of these are significant concerns and are best addressed when we are working together to address common challenges.

Mr. KEATING. I have got just about a minute left, so quickly, I would like to follow on Dr. Bown directly, to get the feelings briefly of, within a minute or half a minute, of the rest of the panel, but in any way could this be justified, this tariff imposition on national security concerns?

Dr. Bown?

Dr. BOWN. No. It is impossible, I think, to come up with a rationale.

Mr. KEATING. Dr. Bromund?

Dr. BROMUND. No.

Mr. KEATING. Ms. Chorlins?

Ms. CHORLINS. No.

Mr. KEATING. Dr. Hamilton?

Mr. HAMILTON. No.

Mr. KEATING. And I must tell you, I have had private conversations with many of our European leaders, extraordinary number of conversations, frankly, in the last several months and I must tell you, I think we miss this at home sometimes, they are disappointed and they are hurt about this relationship. They are carrying through with their NATO commitments in terms of working with us and trying to make good on promises which I think they will continue to do. But it has a real effect and it has an effect on the people that these officials represent which is a problem going forward, too.

I have gone over my time and I would like to recognize the gentleman from Indiana, Mr. Pence.

Mr. PENCE. Thank you, Chairman Keating and Ranking Member Kinzinger and thank you all, witnesses, for being here today.

Dr. Bromund, in reading your prepared testimony, I was relieved to learn that the sky is not falling. It turns out that the United States and our European friends have had trade-related disagreements in the past. These disagreements span both Republican and Democratic administrations. I think we sometimes lose sight of these past disagreements when talking about the here and now. It is important to remember that the trading relationship between two of the world's largest and most complex economies is bound to have some principal disagreements, but this should not be confused as a fundamental change in our fantastic relationship.

Moving into specifics, you mentioned agriculture in your prepared testimony. You said EU Trade Commissioner Cecilia Malmstrom has said agriculture will certainly not be part of these negotiations. This is a redline for Europe.

I come from an agriculture area. This position has obviously frustrated our trade negotiators. This is something I am very concerned about for the farmers, not only in my district, but across the United States. Building on this, you highlight a YouGov poll conducted in 2016 that found only 1 in 5 Germans think TTIP is a good thing, down from 55 percent in 2014. As you state, only half of the German public considered free trade a good idea and a quarter rejected it completely.

Dr. Bromund, my question is how can we address the EU protectionism in agricultural policies that disproportionately affect American farmers?

Dr. BROMUND. Thank you very much for your question, Mr. Pence.

I view European agricultural protectionism as a major barrier to the negotiation of a successful U.S.-EU trade deal. And I share your profound reservation that the EU has taken agriculture off the table in the ongoing trade negotiations with the United States.

I am obviously no apologist for U.S. tariffs and U.S. protectionism. I view U.S. tariffs, as I have said, as the wrong move to make, and I view U.S. and EU regulatory protectionism with an equally distrustful eye.

However, it is vital in trade negotiations writ broad that we keep positive momentum going. The chairman has alluded to the dangers of uncertainty. I share his concern about uncertainty, but uncertainty is much more tolerable if we are moving in a positive direction. Right now, unfortunately, the U.S. stand on tariffs, coupled with the U.S. stand on agriculture makes positive momentum extremely difficult to achieve.

In agriculture, I am in favor of trusting to sound science. U.S. food is bountiful. It is for sale. And it is safe. We should lose no opportunity to emphasize the scientific clarity of the findings that U.S. agriculture is a boon to the United States and a boon to the world and we should try our best to encourage Europe to take agricultural trade on the basis of sound science, not on the basis of panic, fear-mongering, and the anti-Americanism of the sort which did so much damage to the TTIP negotiations.

Mr. PENCE. I could not agree more with you, Doctor.

Thank you, Mr. Chairman. I yield my time.

Mr. KEATING. I thank the gentleman. The chair recognizes the gentleman from Maryland, Mr. Trone.

Mr. TRONE. Thank you, Mr. Chairman, and thank you to the witnesses for coming out today.

Dr. Hamilton, the European Commission will soon experience a change in leadership. Although it is not yet clear which candidate will win the presidency, given those dynamics between the U.S. and the EU, how realistic of a timeframe do you see for trade negotiations to be concluded during President Trump's current term in office?

Mr. HAMILTON. I think they are very low for a number of reasons. As you mentioned, one reason is this Commission is ending. It ends in the fall, so whoever we are negotiating with will not be the current person. They are all packing their bags. I would call the European Commission's current strategy "rope-a-dope". If you are in the boxing ring and you are getting beat up and you are

waiting for the bell to ring to prolong the match, you just throw your opponent up against the ropes, as you dance alond the rope and keep prolonging for time. And I think basically that is what the Commission is doing. This Commission is not going to be the partner to finish the deal and we do not know what comes after that.

If I may add to Dr. Bromund's statement and what was just said, we also have just the fundamental disagreement of what the negotiation is supposed to be about. The Europeans do not want agriculture. I would share his view it is a non-starter with the Congress, certainly, to have anything unless agriculture is included.

The Trump Administration, however, does not want to include government procurement and that is the EU's major ask. The EU resists including agriculture in the negotiations, the US resists including public procurement. And with the tariff threat looming, prospects for progress on an agreement are slim.

Mr. TRONE. So quickly, President Obama, very popular with many of our European partners despite ups and downs in the transatlantic relationship, and yet the TTIP, of course, failed.

President Trump, much less popular in Europe, any potential U.S. trade deal play out given these dynamics at all and does this popularity matter?

Mr. HAMILTON. I think it does. I think the idea, if I may be frank, of concluding a trade deal with President Trump is not going to gain a lot of European support, not just in terms of public opinion, but on very specific issues and with specific countries. The French in particular did not sign up for the mandate the EU gave to the Commission to negotiate right now. They are adamant that they are not going to agree to any trade deal with any country that has not signed the Paris Climate Change Agreement. So they are now blocking what they can within the EU. That is just one example of that.

And so I think the time to negotiate these things just takes so long. This Commission is going to transition toward the end of the year. We will be in our election season. I just do not see a prospect that this is going to happen during the remainder of this congressional term or Presidential term.

Mr. HAMILTON. Dr. Bown, I am concerned about linkages President Trump has made between trade tariffs and sometimes unrelated political issues like his surprise announcement early this month to put tariffs on Mexico for their failure to stop migration into the U.S. While he has since pulled back on that threat, I think this approach is counterproductive, confusing, especially with our allies.

My question is how does this impact U.S. Government's ability to negotiate trade deals going forward and are our trade partners wary of agreeing to any concession knowing the President might add new, unrelated demands at the eleventh hour?

Dr. BOWN. I think that is exactly the problem. By essentially reneging on the agreement which was close to what happened with Mexico, tying it to something that was completely not trade related, a serious issue, but not related to trade, that in a very real sense undermined the value of Mexico conducting the USMCA negotiations in good faith with the Trump administration. And part-

ners around the world watch that, saw that, and said you know, we may be wary to negotiate a trade deal with this administration in the first place, but this gives us even less comfort because anything that we might negotiate with them could then be taken away.

Mr. HAMILTON. One last question quickly there. The German Federation of Industries has started referring to China as a systematic, systemic competitor. Does that change their alliance, their stance toward China and does that open up an opportunity for us to work more closely with the Europeans to make progress vis-a-vis China, Dr. Bown?

Dr. BOWN. I think there are real opportunities for additional cooperation with Europe. I think to its credit, the Trump administration by highlighting these concerns with China has raised them globally. And I think the Europeans are in a very different place than they were two or three or 4 years ago on a lot of these issues and there are now opportunities that we really should not be wasting.

Mr. HAMILTON. Thank you.

Mr. KEATING. The chair now recognizes a gentleman who has been waiting a long time for this hearing because he can speak first hand of so many of its effects potentially, the gentleman from South Carolina, Mr. Wilson.

Mr. WILSON OF SOUTH CAROLINA. Thank you, Mr. Chairman, and thank each of you for being here today, and indeed, I have appreciated the reference to BMW. It is incredible. I was there for the ground-breaking for BMW and the subsequent nature of this last year they achieved $10.4 billion in exports from the United States around the world. And you had referenced how significant it was, but it is a multi-billion of export and then our State has so benefited from foreign investments.

In my home community, we have Michelin Corporation has their largest tire manufacturing facilities in the world and to be exported out of the Port of Charleston also. And this goes along with Continental Tire of Germany. And now South Carolina is the leading manufacturer and exporter of tires of any State in the union beginning just 30 years ago with zero. So we see the benefit.

And I want to thank each of you for your—for the input you have had here today.

Ms. Chorlins, what would be the potential impact of auto tariffs on the U.S. auto industry? Would we feel as much pain as the Europeans do?

Ms. CHORLINS. Thank you for your question, Congressman. I think it is important to state at the outset that indeed there is no domestic constituency for these proposed auto tariffs. I think my colleagues on the panel have identified the potential costs in terms of the increased price of cars and auto parts. They have talked about the potential for job loss and unfair competition.

It is important to understand that as compared to steel and aluminum, imposing tariffs on autos and auto parts would amount to a tenfold increase in the impact of potential trade barriers. So I think that it goes without saying that the impacts would be felt far and wide.

I want to underscore though just one point and that is that while we are spending a lot of time talking about these potential tariffs,

it is important to recognize that Europe is not above reproach in its trade practices and I just want to make sure that members of the subcommittee do understand that there are several issues, legitimate issues, that we have to address in doing business with Europe and that is why we think these negotiations are so critically important.

Mr. WILSON OF SOUTH CAROLINA. And Dr. Bromund, where do things currently stand on Brexit? Is there a role for the U.S. to play to encourage the successful conclusion to the Brexit dilemma?

Dr. BROMUND. Thank you, Congressman. The U.S. should exert all of its energies to encourage both the United Kingdom and the European Union to come to a speedy resolution of this dilemma. It seems clear from the U.K.'s successive votes on Prime Minister May's withdrawal agreement that there is no domestic basis in U.K. for passing this withdrawal agreement through the House of Commons. It is therefore likely that the U.K. will either exit EU without a deal or that the basis for a new deal will have to be negotiated. If the former, the no deal scenario was true, and U.K. opens itself up as a negotiating partner for FTA with the United States, an opportunity we should seize. However, if there is an opportunity for a satisfactory negotiated exit for the U.K. from the European Union, this is something the United States could, and I believe should use its good offices to seek both sides to persuade and to accept.

Mr. WILSON OF SOUTH CAROLINA. And Dr. Bromund, at the beginning of the year the U.K., France, and Germany announced a new channel for non-dollar trade between the EU and Tehran in order to bypass U.S. sanctions of Iran called INSTEX. What are the ramifications of setting up such a mechanism and what has been the consequence?

Dr. BROMUND. The immediate ramifications in financial terms have been relatively small. However, the broader implications of this measure are significant. One of the U.S.'s most important tools in international relations broadly defined, I am not talking here simply about a trade, is the power of the U.S. dollar and the centrality of the U.S. as a financial market and a global investment market. Measures like this European measure threaten to circumvent the U.S. ability to achieve foreign policy objectives by using the power of the dollar and the centrality of the U.S. in investment markets. And this can only have a negative effect on the U.S.'s ability to achieve its foreign policy objectives in areas far divorced from trade.

Mr. WILSON OF SOUTH CAROLINA. Thank you very much. And thank you, Chairman Keating.

Mr. KEATING. I thank the gentleman. The chair now recognizes the vice chair of the committee, Ms. Spanberger from Virginia.

Ms. SPANBERGER. Thank you, Mr. Chairman, and thank you to our witnesses for being here today.

Following up on the line of questioning and discussion that we have heard so far just for level setting, on February 17, 2019, the Secretary of Commerce transmitted to the White House a report on his investigation into the effects of imports of automobiles and certain automobile parts on the national security of the United States under Section 232 of the Trade Expansion Act. And on June 14th,

President Trump sent a letter to Congress stating that he concurred with the secretary's finding that automobiles and certain automobile parts are being imported into the United States in such quantities and under such circumstances as to threaten and impair the national security of the United States.

So I share some of the concerns that have been expressed here today, notably, 232 emerged out of the cold war—under the cold war, has typically been used against oil and petroleum. And when we look at auto related trade accounts, auto related trade accounts were only 8 percent of bilateral trade between the United States and the EU and we see such an impact on U.S. jobs. I am struggling and challenged with this notion of how this national security determination has been made.

And so my question for you as experts, former U.S. officials as well, and in your current role, Ms. Chorlins, for example, with the U.S. Chamber, is it clear to you what criteria was used to assign a national security threat to the automobile imports?

Ms. CHORLINS. Thank you for the question, Congressman. Because the report has not been made public, it is impossible for us to know the exact criteria that were used. I think what we can say is that the administration has made it clear that especially with the case of steel and aluminum tariffs and presumably with the auto tariffs as well, or the threat of auto tariffs, that this is indeed designed to develop or create negotiating leverage, to bring our trading partners to the table and to force concessions from them.

So in terms of the actual criteria, I am afraid I do not have specifics for you.

Ms. SPANBERGER. And how does that create a challenge in your current role, for example, in trying to advocate on behalf of U.S. businesses being privy to those sorts of relationships between the United States and the EU having this lack of understanding related to the 232 tariffs that the United States has imposed?

Ms. CHORLINS. Well, I think as the other panelists have suggested, the tremendous uncertainty is of grave concern certainly to the American business community. Mainly what we would like to see is for the U.S. and Europe to actually make progress on the areas that they have agreed to discuss so they have talked about reducing non-auto industrial tariffs. We think that kind of conversation should go forward. They have talked about improvements regarding conformity assessments and mutual recognition agreements. It is our understanding that those conversations are happening at a technical level. Those sorts of somewhat arcane measures are nonetheless of great significance to American businesses. So we would like to see these existing talks go forward. We would love for them to be more comprehensive to include not just industrial goods, but also as I said earlier services, investment, and procurement, but we recognize that we have limited opportunities here and we feel like we should leverage this momentum.

Ms. SPANBERGER. Thank you. And Dr. Hamilton, I would like to pose a question to you given your previous background with the Department of State in an issue that has been important for many of us here is ensuring that we are asserting our Article 1 authorities.

Do you have an opinion, sir, on what role Congress should play in overseeing Section 232 tariffs, particularly given the foreign policy implications of such decisions and frequently the—in this case, the national security reasoning for the implementation of such tariffs?

Mr. HAMILTON. Thank you for the question. I agree with Dr. Bown's comments. Constitutional authority for commerce rests with the Congress, and Congress should uphold that authority. The topic under discussion is an example of a commercial issue with national security implications, which indicated that this committee is an appropriate deliberative forum for the challenges it poses. It is the constitutinal prorogative of the Congress to assert its rule and its rights, not just conduct oversight. As Dr. Bown said, this should be examined very closely and there should be a congressional role here whenever the executive is trying to encroach upon these rights.

Regarding your other question, the uncertainty impact extends to other areas. You mentioned the national security implication of this had been done before with oil and gas. Well, we are now in a new position with oil and gas. We are trying to sell it to the Europeans, but you can imagine if there is uncertainty about us as a reliable supplier, what that will do then to our ability now to create this new channel of transatlantic commerce. The Trump Administration is making essentially the same charge about the Russians not being reliable suppliers when it comes to providing Europe with oil and gas. Well, you can imagine the Europeans might be asking themselves well, are you reliable either?

Ms. SPANBERGER. Thank you very much. I yield back.

Mr. KEATING. The chair thanks the gentlelady for your questions and particularly bringing up Congress' role because we have another role, too, in Congress, and that is representing a jurisdictional district, territories, and regions of the United States. If you look at the materials that have been forwarded to the committee breaking that down by State, you will see the importance of that from a State-by-State basis. Thank you for the question and your responses.

The chair recognizes the gentleman from Mississippi, Representative Guest.

Mr. GUEST. Thank you, Mr. Chairman. Dr. Bromund, I want to start by following up a little bit on what Congressman Pence was speaking about as it relates to agriculture. Mississippi is a large producer of agricultural products. American poultry has been banned in the EU. American Farm Bureau statistics tell us that we have $11 billion deficit with the EU as it relates to agricultural products. The average U.S. tariff for imported agricultural products is roughly 5 percent. For the EU, the average tariff on imported agricultural products is roughly 3 times higher, at 14 percent. We know that trade negotiators on behalf of the EU have said that agriculture will not be part of these negotiations, that this is what they describe as a redline.

You say in your written testimony on page 4 and 5, you talk a little bit about some of those. You say that eliminating tariffs for non-automobile industrial goods would be a major gain for the U.S. economy and EU, but so would an end to the EU's agricultural pro-

tectionism. And you list both France and Belgium as two of the major driving factors behind their reluctance to include that in current negotiations.

And so I guess my question to you, Dr. Bromund, what can we do to make sure that we are applying the necessary pressure on our friends in the EU that they are seriously considering opening up their agricultural industry to American products?

Dr. BROMUND. Thank you for the question, Congressman. I would point out that EU and this began even before the European Union came into existence as the EU, EU agricultural protectionism has two fundamental sources. First, there is the long-run impact of the Common Agricultural Policy which rests on the political importance of agricultural constituencies in the European Union. Although, of course, the relative size of the EU agricultural sector has declined over the years as it has in the United States, this still represents an important political constituency in the EU and we need to recognize that fact without for a moment excusing the protectionism that flows from it.

Second, and this is unfortunately more recent, there is a broad based and very popular political campaign in the European Union against U.S. agricultural exports. This was, in my judgment, the single most important factor behind the European rejection of TTIP, the belief that opening up the EU markets through TTIP to U.S. agriculture would be bad for EU consumers as well as, less importantly, bad for EU agricultural producers.

What I am afraid these two things have in common is they only be resolved by EU European political leadership. We need to make it very clear that just as I condemned U.S. industrial protectionism through steel, aluminum, and potentially car tariffs, we expect to EU political leaders to show the same level of support in condemning their own protectionism. We cannot negotiate, politically speaking, an industrial free trade goods agreement without also negotiating politically in the United States an agriculture free trade agreement. For us, those two things are politically inseparable and I would add they are both economically beneficial for us and EU consumers.

So I think we have to exercise, we have to call on European political leaders to exercise significant political leadership as the Congress is trying to do in this U.S. case to push European agricultural producers and to push EU agricultural consumers to recognize that importing U.S. agricultural goods is a good thing, a healthy thing, and an important thing for the wider health of the U.S.-EU trade relationship.

Mr. GUEST. Do you believe the EU leaders understand the importance of opening up agriculture as at least a negotiating point for any future agreements?

Dr. BROMUND. I have no doubt they understand its importance. That is why the French refuse to do it.

Mr. GUEST. And one final question, Dr. Bromund, just kind of changing gears, you say on page 9 of your written statement, you say that today it is becoming commonplace that the world will be divided into spheres of trading influence, either a Chinese sphere and a Western one or a U.S. sphere, a European one, and a Chinese one.

Can you expand on that just very briefly?

Dr. BROMUND. This is now a commonplace observation. The idea that the future of the world rests with great powers or great trading spheres, potentially a U.S. one, a European one, and a Chinese one, or else a U.S. and European one combined versus a Chinese sphere. This is an outcome that we should do everything in our power to avert.

U.S. strategy in the cold war did not rest around trying to create a bipolar world between the U.S. and the USSR. In the cold war, we fought for freedom for our allies, as much as freedom for ourselves. It is profoundly not an American interest for the world to be divided up into two or three economic trading spheres of influence. We want the broadest freedom for ourselves and we want broad freedom for our allies, even to the extent that they may, on occasion, disagree with us as they have in the past, as they are now, and as they will undoubtedly do in the future. But the idea of a world divided up, George Orwell style, into three competing trading continents is a profoundly unappealing and I would say un-American one. We should do everything in our power to preserve certainly our own trading freedom and our own prosperity, but also the trading freedom and prosperity of our allies as well.

Mr. GUEST. Thank you. Mr. Chairman, thank you. I yield back.

Mr. KEATING. Thank you. The chair recognizes a leader in transatlantic relationships, the gentleman from California, Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman. This is an important hearing for the subcommittee.

Taking your thesis, which I tend to agree with, Dr. Bromund, it seems to me that yet when you look at the United States and Canadian economies with Europe, we still constitute over half the world's economy. And when you talk about rules-based systems, you know, integrity and respect for law, a judiciary system for appeals of these cases, we have far more in common with our transatlantic relationship, Canada and us, than these other parts of the world. And frankly, we have the ability still to write the rules for the 21st century in terms of a world-based economy and I think we should not lose sight of that opportunity notwithstanding our current differences.

I think the politics that we are both aware of in Europe and here have to be played out. Do you think that ultimately the procurement issue in Europe and the agricultural issues here ultimately constitute the basis for some sort of a compromise as we, at some point, move to the position of renegotiation, some version of a TTIP, both Mr. Bromund and Dr. Hamilton, and anyone who would like to opine.

Dr. BROMUND. It is an intriguing idea. Unfortunately, the question is what are the relevant constituencies in the EU and the United States? In the United States, the opposition to opening up government procurement rests on the idea that U.S. taxpayer funds should be directed to benefit U.S. consumers and U.S. corporations. In the EU, the opposition to opening up agricultural markets to U.S. competition rests partly on EU agricultural producers, but also on a sector of EU——

Mr. COSTA. I realize that, but let's give examples of what reality is. When you look at the automobile market, we are playing both

sides, both Europeans and the U.S. When you look at the issues of our new strike joint fighter, you know, the Europeans are buying it. We are manufacturing it and you have got parts being made in Europe. I mean the reality is is that when Europeans come to America, they can go to any of our major grocery stores and find all the wonderful cheeses that are produced in Europe as well as the European wines. That is the reality.

So I mean how we get past that in terms of—I get the politics in France and in Italy and in all the other countries when it comes to Parma, our Gorgonzola, or all those kinds of nice naming items.

So therefore, my question is the Commission and the commissioners negotiate the trade agreements. The Parliament ultimately has to pass. We are not as familiar with their system as we should be, I think.

Under the next new European Commission, I think we ought to try to figure out a way to break through this in terms of the politics and to get our own committees that have the jurisdiction in these areas, even with the European Parliamentary committees and having hearings here and having hearings there in Europe to meet with these constituencies. Do you think there would be some mileage in that, Dr. Hamilton?

Mr. HAMILTON. Absolutely. Congressman, you know from your great work that there is a great appetite for it on the European side. The EU Caucus here could play a role, the Transatlantic Legislators' Dialogue plays a role. There are a number of things that could be done.

One idea would be simply when you are considering legislation on each side of the Atlantic that might affect the other, whether you sort of have an early warning type of mechanism so you can understand what the potential legislation coming down the road might be, and understand how that might affect each other. That could be just a video conference with your colleagues. You would not have to necessarily fly everywhere. I think modern technology allows sort of these parliamentary-type exchanges now on fundamental, substantive, legislative ideas that could help things.

Mr. COSTA. Well, once that commission gets formed, I think we have got to figure out a way to get out of the box here because—let me ask another question. They have completed an agreement with Canada and now with Mexico and they are negotiating with the Mercosur countries. Do you think those successful conclusions of those treaties offer a template for us, once we are ready to sit down and have a real negotiation again?

Mr. HAMILTON. I do not because I think we are—we would be the pioneers. We would be negotiating something that is far beyond what any of these other agreements have been which always contain lower standards than what we have.

I think you are right that the critical thing to me seems to be these two issues. The US wants the EU to open up its agriculture market; the EU wants the US to open up its public procurement market. Each has a problem. The Federal Government often is not the real answer on public procurement because many U.S. States actually do not subscribe to a lot of international standards on opening up public procurement markets. So somehow our States would have to go along with this. That is very hard.

On the European side, instead of just thinking market access which is, I agree, a problem, one can think about the types of things you mentioned, that there are a lot of regulatory issues where we can agree to certain standards on health and safety that I could see us moving forward on in the agricultural area that is beyond just the trade piece of things. So I do think if the will is there, there is a possibility.

The problem we have is we have a limited mandate on both sides now or we are arguing about it. For the trade agreement to be WTO compliant, it has to cover substantially all trade. Well, the current negotiation will not do that. So that was the original idea behind the TTIP which was to say "let's put it all together so that there is enough room for some tradeoffs on both sides." We were 97 percent of the way there in January 2017.

Mr. COSTA. We have made a lot of progress.

Mr. HAMILTON. We have and I think we can come back to some of that in the future.

Mr. COSTA. I think we are going to have to and your definition of bilateral, because I know the president attempted to do as Chancellor Merkel tried to explain that the European Union is one entity and we are one entity, so that is bilateral.

Mr. HAMILTON. That is right.

Mr. COSTA. That is my definition of bilateral. Do all of you agree that is a definition of bilateral? OK. It seems to me.

My time has expired and we need to continue this conversation, Mr. Chairman, and I look forward to working with you as we figure out ways with the Constitution. And this is part of the problem. After the elections, they are reorganizing now and only 250 of the returning members of the European Parliament out of 761 which means over 500 of them are brand new, and so we are going to have to have some time and patience as we work through this aspect and with a new Commission as well.

Mr. KEATING. The chair would like to thank the witnesses for adjusting their schedule because of the roll calls and the delay that ensued from that. And thank you for your very well-informed testimony. This is something that we will have to pursue not just as a subcommittee, but as a full committee, and as a Congress.

The opportunities here are enormous. The challenges are great. It is unfortunate—I would have liked to have seen, frankly, what would have happened if TTIP had been in the front end, instead of TPP when there was a lot more commonality of thought and I think we could have really had the thing moving and it picked up a lot of momentum. We are not there because of circumstances we could not control, but the greater good for the U.S., the greater good to our allies in Europe, is so enormous, not just an economic benefit, but also in our shared values and the environment, the shared concern we have for that, intellectual property being guarded, having a rule of law, and a belief in fair wages and safe working conditions, all these values that we share together are great. But I would say this, that in the absence of us moving forward in this area of mutual benefit there will be indeed a vacuum and that vacuum will be filled with countries and entities that do not share those same values and it will not have the beneficial effect. So to me, I know the challenges, but the penalties that are there and

what is going to happen if we do not move forward ourselves and what we will be facing is a far greater concern.

So I hope we can continue this discussion. I hope we can move forward as a Congress and Parliament and engage the business community to be a part of this. It is necessary. And move forward. There will be a little rebranding. TTIP probably will be a thing of the past, but I believe if we work together, we will have success. So thank you for your words here today, your testimony and if there are any other questions, we will followup. This hearing is adjourned.

[Whereupon, at 4:30 p.m., the subcommittee was adjourned.]

APPENDIX

SUBCOMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6128

Subcommittee on Europe, Eurasia, Energy, and the Environment

William R. Keating (D-MA), Chairman

June 26, 2019

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs, to be held by the Subcommittee on Europe, Eurasia, Energy, and the Environment in Room 2172 of the Rayburn House Office Building (and available live on the Committee website at https://foreignaffairs.house.gov/):

DATE: Wednesday, June 26, 2019

TIME: 2:00 pm

SUBJECT: Transatlantic Policy Impacts of the U.S. – EU Trade Conflict

WITNESS: Daniel S. Hamilton, Ph.D.
Austrian Marshall Plan Foundation Professor
Johns Hopkins University School of Advanced International Studies
(Former Deputy Assistant Secretary of State for European Affairs)

Ms. Marjorie Chorlins
Vice President, European Affairs, U.S. Chamber of Commerce
Executive Director, U.S.-UK Business Council
(Former Principal Deputy Assistant Secretary for Import Administration at the Department of Commerce)

Chad P. Bown, Ph.D.
Reginald Jones Senior Fellow
Peterson Institute for International Economics

Theodore R. Bromund, Ph.D.
Senior Research Fellow in Anglo-American Relations
Margaret Thatcher Center for Freedom
The Heritage Foundation

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COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF SUBCOMMITTEE ON *Europe, Eurasia, Energy, and the Environment* HEARING

Day *Wednesday* **Date** *June 26th* **Room** *2172*

Starting Time *3:13* **Ending Time** *4:30*

Recesses ____ (___to___) (___to___) (___to___) (___to___) (___to___) (___to___)

Presiding Member(s)

Keating

Check all of the following that apply:

Open Session ☑
Executive (closed) Session ☐
Televised ☑

Electronically Recorded (taped) ☑
Stenographic Record ☑

TITLE OF HEARING:

Transatlantic Policy Impacts of the U.S. – EU Trade Conflict

SUBCOMMITTEE MEMBERS PRESENT:

See Attached

NON-SUBCOMMITTEE MEMBERS PRESENT: *(Mark with an * if they are not members of full committee.)*

HEARING WITNESSES: Same as meeting notice attached? Yes ☑ **No** ☐
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

Dr. Daniel Hamilton's Testimony
Ms. Marjorie Chorlins's Testimony
Dr. Chad Bown's Testimony
Dr. Theodore Bromund's Testimony
"European Commerce and the 50 U.S. States: A State-by-State Comparison"
"The Transatlantic Economy 2019"
"Statement of the U.S. Chamber of Commerce on Comments on Negotiating Objectives for a U.S.-European Union Trade Agreement"
"Driving the Strong Economic Relationship Between the U.S. and Europe"
"Transatlantic Business Works – Policy Priorities and Recommendations"

TIME SCHEDULED TO RECONVENE ________
or
TIME ADJOURNED *4:30*

Subcommittee Staff Associate

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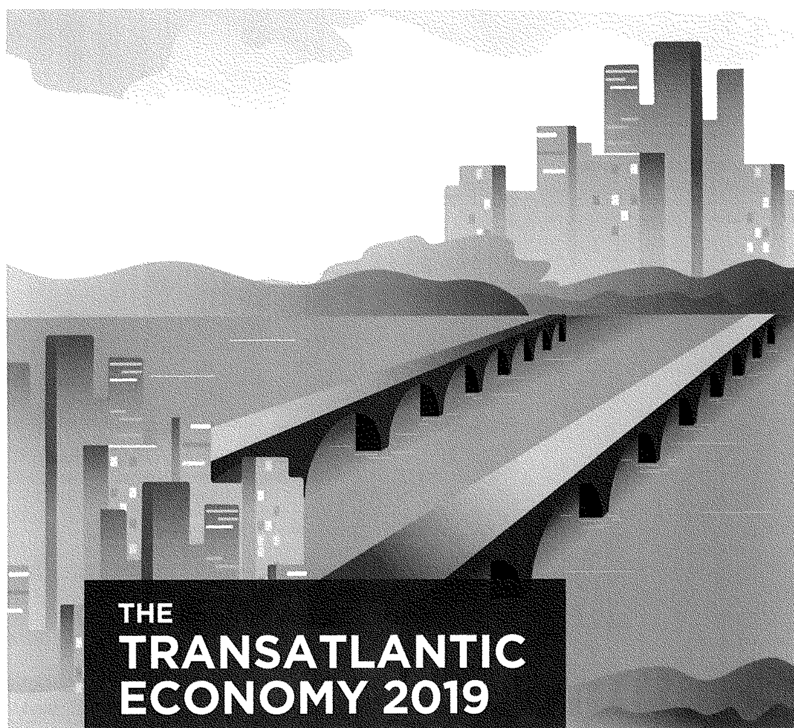

Annual Survey of Jobs,
Trade and Investment between
the United States and Europe

Daniel S. Hamilton and Joseph P. Quinlan

U.S. CHAMBER OF COMMERCE

Hamilton, Daniel S., and Quinlan, Joseph P., *The Transatlantic Economy 2019: Annual Survey of Jobs, Trade and Investment between the United States and Europe*
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THE TRANSATLANTIC ECONOMY 2019

Annual Survey of Jobs,
Trade and Investment between
the United States and Europe

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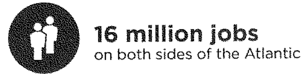
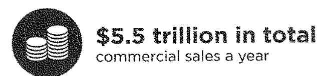




Data flows between the U.S. and Europe

50% higher than data flows between the U.S. and Asia

75% of digital content globally is produced in North America and Europe

R&D spending

$31.3 billion U.S. companies in Europe (2016)

$43.8 billion European companies in the U.S. (2016)

54% of global investment into the U.S. comes from Europe (2017)

55% of U.S. global investment goes to Europe (2017)

Workers

4.8 million U.S. companies in Europe (Direct jobs due to investment, 2017)

4.6 million European companies in the U.S. (Direct jobs due to investment, 2017)

27% U.S. and Europe's share of global goods exports (2017)

$285 billion U.S. goods exports to the EU (2017)

U.S.-European services exports at record levels

$298 billion U.S. to Europe (2017)

$232 billion Europe to the U.S. (2017)

Preface and Acknowledgements

Daniel S. Hamilton

Joseph P. Quinlan

This annual survey offers the most up-to-date picture of the dense economic relationship binding European countries to America's 50 states. The survey consists of five chapters. Chapter One underscores how the transatlantic economy today is structurally sound yet facing significant political turbulence. Chapter Two updates our basic framework for understanding the deeply integrated transatlantic economy via 'eight ties that bind.' Chapter Three explores the transatlantic digital economy, which in many ways has become the backbone of commercial connections across the Atlantic. Chapter Four offers an overview of European commercial ties with the United States, and Chapter Five an overview of U.S. commercial relations with Europe. The appended charts provide the most up-to-date information on European-sourced jobs, trade and investment with the 50 U.S. states, and U.S.-sourced jobs, trade and investment with the 28 member states of the European Union, as well as Norway, Switzerland and Turkey.

This annual survey complements our other writings in which we use both geographic and sectoral lenses to examine the deep integration of the transatlantic economy, and the role of the U.S. and Europe in the global economy, with particular focus on how globalization affects American and European consumers, workers, companies, and governments.

In another new publication, *Turkey in the North Atlantic Marketplace*, leading experts develop possible ways forward to anchor Turkey in the West by further deepening economic ties between Turkey and its transatlantic partners. In *The Transatlantic Digital Economy*, we expand on chapter 3 in this volume to look at how digital links across the Atlantic are becoming so critical to both U.S. and European economic health.

We would like to thank Jason Moyer, Thibaut L'Ortye, Wendy Lopes and Garrett Workman for their assistance in producing this study.

We are grateful for generous support of our annual survey from the American Chamber of Commerce to the European Union, the U.S. Chamber of Commerce and their member companies, as well as the American Chambers of Commerce in Denmark, Finland, Ireland, Slovenia and Sweden.

The views expressed here are our own, and do not necessarily represent those of any sponsor or institution. Other views and data sources have been cited, and are appreciated.

Executive Summary

- Despite transatlantic political turbulence, the U.S. and Europe remain each other's most important markets. The transatlantic economy generates $5.5 trillion in total commercial sales a year and employs up to 16 million workers in mutually "onshored" jobs on both sides of the Atlantic. It is the largest and wealthiest market in the world, accounting for one-third of world GDP in terms of purchasing power and half of total global personal consumption.

- Ties are particular thick in foreign direct investment (FDI), portfolio investment, banking claims, trade and affiliate sales in goods and services, mutual R&D investment, patent cooperation, technology flows, and sales of knowledge-intensive services.

Transatlantic Investment: Still Driving the Transatlantic Economy

- Trade alone is a misleading benchmark of international commerce; mutual investment dwarfs trade and is the real backbone of the transatlantic economy. The U.S. and Europe are each other's primary source and destination for foreign direct investment.

- Together the U.S. and Europe accounted for 27% of global exports and over 32% of global imports in 2017. But together they accounted for 65% of the outward stock and 58% of the inward stock of global FDI. Moreover, each partner has built up the great majority of that stock in the other economy. Mutual investment in the North Atlantic space is very large, dwarfs trade, and has become essential to U.S. and European jobs and prosperity.

- European firms based in the U.S. accounted for 52% of the $370 billion in U.S. exports by U.S.-based foreign affiliates in 2016.

- U.S. foreign affiliate sales in Europe of $3 trillion in 2017 were greater than total U.S. exports to the world of $2.4 trillion and roughly half of total U.S. foreign affiliate sales globally.

- Foreign investment and affiliate sales drive transatlantic trade. 60% of U.S. imports from the EU consisted of intra-firm trade in 2016 - much higher than U.S. intra-firm imports from Asia-Pacific nations (around 40%) and South/Central America (42%) and well above the global average (49%). Percentages are notably high for Ireland (85%) and Germany (69%).

- Intra-firm trade also accounted for 36% of U.S. exports to Europe and 52% to the Netherlands, 35% to Germany and 28% to France.

The U.S. in Europe

- Over many decades no place in the world has attracted more U.S. FDI than Europe. Since the start of this decade Europe has attracted 58.4% of total U.S. global investment - more than in any previous decade.

- The total stock of U.S. FDI in Europe in 2017 was $3.6 trillion - 59% of the total U.S. global investment position and more than 3.5 times U.S. investment in the Asia-Pacific region.

- In 2018 U.S. FDI flows increased to France (18%), Italy (79%) and Spain (55%).

- However, 2018 was an atypical year for U.S. capital outflows due to a major U.S. tax overhaul that unleashed large-scale repatriations of U.S. companies' accumulated foreign earnings. Overall U.S. FDI outflows to Europe for the first nine months of the year were -$13 billion. Global U.S. outflows were -$125 billion during this period. The largest negative outflows in Europe were from the Netherlands (-$35 billion) and Ireland (-$20 billion).

- Within Europe, however, U.S. FDI is becoming more concentrated. Germany accounted for only 1.7% and France for just 1.4% of U.S. FDI flows between 2010 and 2017. In 2017, four countries accounted for 87% of total U.S. FDI outflows of $164 billion to Europe: Ireland ($45 billion); the Netherlands ($35 billion); Luxembourg ($33 billion); and Switzerland ($30.0 billion). That said, some of these investment flows ultimately make their way to neighboring countries, so they likely misrepresent the ultimate destination of U.S. direct investment.

- In 2017 nonbank holding companies accounted for $127 billion, or about 42% of global U.S. FDI outflows of $300 billion, and 51% of total U.S. foreign direct investment to the EU of $164 billion.

- From 2009-2017 Europe still accounted for over 47% of total U.S. FDI outflows globally when flows from holding companies are removed from the overall figures. Europe's share was still more than double the share to Asia.

- America's capital stock in the UK ($748 billion in 2017) is almost triple combined U.S. investment in South America, the Middle East and Africa ($253 billion). Total U.S. investment stock in China was just $92 billion in 2017, only about 14% of U.S. investment stock in the UK. U.S. investment presence in China and India combined – totaling $153 billion in 2017 – is just 20% of total U.S. investment in the UK.

- The UK still plays an important role for U.S. companies as an export platform to the rest of Europe. U.S. firms based in the UK export more to the rest of Europe than U.S. firms based in China export to the world.

- In 2017 Europe accounted for roughly 62% – $15.6 trillion – of Corporate America's total foreign assets globally. Largest shares: the UK (20%, $5 trillion) and the Netherlands (11%, $2.9 trillion).

- America's asset base in Germany ($811 billion in 2016) was roughly one-quarter larger than its asset base in all of South America and double its assets in China.

- America's combined asset base in Poland, the Czech Republic and Hungary (roughly $144 billion) was on par with its asset base in India ($141 billion).

- America's assets in Ireland alone ($1.4 trillion in 2016) were much larger than either those in France ($376 billion), or Switzerland ($923 billion), and light years ahead of those in China ($404 billion).

- Ireland has also become the number one export platform for U.S. affiliates in the entire world. Exports from U.S. affiliates based in Ireland reached $293 billion in 2016, five times more than U.S. affiliate exports from China and about four times more than from Mexico.

- Total output of U.S. foreign affiliates in Europe ($695 billion) and of European affiliates in the U.S. ($586 billion) in 2017 was greater than the output of such countries as the Netherlands, Turkey or Indonesia.

- Aggregate output of U.S. affiliates globally reached $1.4 trillion in 2017; Europe accounted for 51% of the total.

- U.S. affiliate output in Europe ($665 billion) in 2016 was roughly double affiliate output in all of Asia ($329 billion). U.S. affiliate output in China ($65 billion) and India ($29 billion) pale in comparison to U.S. affiliate output in the UK ($166 billion), Germany ($81 billion), or even Ireland ($91 billion).

- Sales of U.S. affiliates in Europe were 75% larger than the comparable figures for the entire Asian region in 2016. Affiliate sales in the UK ($607 billion) were double total sales in South America. Sales in Germany ($341 billion) were over double the combined sales in Africa and the Middle East.

- We estimate that U.S. affiliate income in Europe reached a record $281 billion in 2018. Europe accounted for roughly 55% of U.S. global foreign affiliate income in the first nine months of 2018.

- U.S. affiliate income from Europe of $211 billion in the first nine months of 2018 was about three times more than the affiliate income of Latin America ($71 billion) and Asia ($69 billion), respectively.

- U.S. affiliate income in China ($9.8 billion), however, was more than affiliate income in Germany ($5.1 billion), and income in India ($3 billion) was more than in Spain ($2.8 billion) or France ($2.2 billion).

Europe in the U.S.

- In 2018 Europe accounted for 60% ($136 billion) of global FDI inflows into the U.S. of $226 billion.

- UK firms were the largest source of greenfield investment projects in 18 U.S. states during the ten years between October 2018 and October 2008. German companies led in 16 states, followed by Canadian and Japanese companies each in 8 states.

- In the first nine months of 2018, inflows to the U.S. from Europe totaled $102 billion, about 20% less than a year earlier, largely because of a massive negative investment outflow from Luxembourg of -$122 billion. French and German flows trended higher, UK and Swiss flows trended lower.

- Europe accounted for roughly 68% of the $4.0 trillion invested in the United States in 2017 on a historic cost basis. Total European stock in the U.S. of $2.7 trillion was four times the level of comparable investment from Asia.

- The bulk of the capital was sunk by British firms (with total UK stock amounting to $541 billion), Luxembourg ($411 billion), the Netherlands ($367 billion), Germany ($310 billion), Switzerland ($309 billion), and France ($275 billion).

- In 2016 total assets of European affiliates in the U.S. were an estimated $7.7 trillion. The UK ranked first, followed by Germany, Switzerland and France.

- In 2016 European assets accounted for nearly 60% of total foreign assets in the United States.

- European affiliate income earned in the United States in 2018 (estimated at $132 billion) was up 12% from the year before ($118 billion).

- The output of British firms in the U.S. in 2017 reached $144 billion – roughly a quarter of the total output of European firms in the U.S. The output of German firms in the U.S. totaled $109 billion, or about 20% of the total.

- Beyond European affiliates, only Japan and Canada have any real economic presence in the U.S. In 2016, Japanese affiliate output totaled nearly $135 billion, Canadian $81 billion.

- European companies operating in the U.S. accounted for nearly two-thirds of the $911 billion contributed by all foreign firms to U.S. aggregate production in 2016.

- European auto companies produced 25% of total U.S. production in 2017 and generated $34 billion towards U.S. GDP in 2016. 60% of European cars produced in the U.S. are U.S. exports to the world.

- Affiliate sales, not trade, are the primary means by which European firms deliver goods and services to U.S. consumers. In 2017 European affiliate sales in the U.S. ($2.5 trillion) rose an estimated 11% and were more than triple U.S. imports from Europe.

- Sales by British affiliates in the U.S. totaled $534 billion in 2016, followed by German affiliate sales ($471 billion) and those by Dutch affiliates ($323 billion).

Transatlantic Trade

- U.S. merchandise exports to the EU rose by an estimated 13% in 2018 to a record $319 billion. Notably strong export markets included the UK (U.S. exports up 18% in the first eleven months of 2018), Italy (+27%), and the Netherlands (+19%).

- The U.S. and the EU are each other's largest trading partners. In the first eleven months of 2018, U.S. goods exports to the EU ($293 billion, up 13.2%) were over 2.5 times more than U.S. goods exports to China ($111 billion).

- The U.S. annual merchandise trade deficit with the EU, estimated at $168 billion in 2018, was at a record high, up 11% from the year earlier. The U.S. deficit with China ($417 billion) is 2.5 times larger than the U.S. deficit with the EU.

- The U.S. accounts for 29% of total EU auto exports; the EU accounts for 20% of total U.S. car exports.

- 45 of 50 U.S. states export more to Europe than to China, in many cases by a wide margin.

- In 2017 New York exports to Europe were more than 8 times those to China. California, Texas, Michigan, Illinois and Ohio exported more than twice as much to Europe as to China.

- Germany was the top European export market for 18 U.S. states and the UK for 14 in 2017.

- Foreign firms operating in the United States shipped $370 billion in U.S. goods exports in 2016; 52% of these U.S. exports were generated by European companies.

Transatlantic Services

- The U.S. and Europe are the two leading services economies in the world. The U.S. is the largest single country trader in services, while the EU is the largest trader in services among all world regions. The U.S. and EU are each other's most important commercial partners and major growth markets when it comes to services trade and investment. Moreover, deep transatlantic connections in services industries, provided by mutual investment flows, are the foundation for the global competitiveness of U.S. and European services companies.

- Four of the top ten export markets for U.S. services are in Europe. Europe accounted for 37% of total U.S. services exports and for 43% of total U.S. services imports in 2017.

- U.S. services exports to Europe reached a record $298 billion in 2017, up more than 40% from 2009. The U.S. had a $66 billion trade surplus in services with Europe in 2017, compared with its $175 billion trade deficit in goods with Europe.

- U.S. imports of services from Europe also hit an all-time high in 2017 of $232 billion, up nearly 40% from 2009. The UK, Germany, Switzerland, Ireland, France and Italy are top services exporters to the U.S.

- Moreover, foreign affiliate sales of services, or the delivery of transatlantic services by foreign affiliates, have exploded on both sides of the Atlantic over the past few decades and become far more important than exports.

- We estimate that sales of services of U.S. affiliates in Europe rose 4%, to $802 billion, in 2017, 2.7 times more than U.S. services exports to Europe of $298 billion.

- The UK alone accounted for 30% of all U.S. affiliate sales in Europe in 2016 – $232 billion, greater than combined affiliate sales in South and Central America ($118 billion), Africa ($13 billion) and the Middle East ($21 billion).

- On a global basis, Europe accounted for roughly 53% of total U.S. affiliate services sales.

- European affiliate sales of services in the U.S. of $561 billion in 2016 were about 27% below U.S. affiliate sales of services in Europe.

- Nonetheless, European companies are the key provider of affiliate services in the U.S. Foreign affiliate sales of services in the U.S. totaled $995 billion in 2016; European firms accounted for 56% of the total. British affiliates lead in terms of affiliate sales of services ($143 billion), followed closely by Germany ($134 billion).

- European companies operating in the U.S. generated an estimated $583 billion in services sales in 2017, 2.5 times more than European services exports to the U.S. of $232 billion.

Transatlantic Jobs

- Despite stories about U.S. and European companies decamping for cheap labor markets in Mexico or Asia, most foreigners working for U.S. companies outside the U.S. are European, and most foreigners working for European companies outside the EU are American.

- European companies in the U.S. employ millions of American workers and are the largest source of onshored jobs in America. Similarly, U.S. companies in Europe employ millions of European workers and are the largest source of onshored jobs in Europe.

- U.S. and European foreign affiliates directly employed 9.4 million workers in 2017. Further modest gains in employment were most likely achieved in 2018.

- These figures understate the overall job numbers, since they do not include
  - o jobs supported by transatlantic trade flows;
  - o indirect employment effects of nonequity arrangements such as strategic alliances, joint ventures, and other deals; and
  - o indirect employment generated for distributors and suppliers.

- U.S. affiliates directly employed an estimated 4.8 million workers in Europe in 2017 – over 30% more than in 2000.

- Roughly 33% of the 14.3 million people employed by U.S. majority-owned affiliates around the world in 2016 lived in Europe; that share is down from 38% in 2009.

- U.S. affiliates employed more manufacturing workers in Europe in 2016 (1.9 million) than they did in 1990 (1.6 million), and about the same as in 2000 (1.9 million). Manufacturing employment has declined in some countries but has rebounded in others.

- Poland has been a big winner: U.S. affiliate manufacturing employment grew more than 2.5 times between 2000 and 2016, rising from 51,000 to over 128,000, and continuing upwards.

- In 2016 the UK, France and Germany accounted for less than 50% of U.S. affiliate manufacturing employment in Europe. In 1990 they accounted for 67%. Meanwhile, the combined share of U.S. affiliate manufacturing employment in Poland, the Czech Republic and Hungary jumped from virtually zero in 1990 to nearly 15% in 2016, indicative of the eastern spread of U.S. companies' European operations.

- Manufacturing employment among U.S. affiliates in the UK has declined from 431,000 in 2000 to 311,000 in 2016 and in France from 249,000 to 197,000.

- Manufacturing employment among U.S. affiliates in Germany is near levels seen at the start of the century – 382,000 jobs in 2016, compared to 388,000 in 2000.

- U.S. affiliates employ more Europeans in services than in manufacturing and this trend is likely to continue. Manufacturing accounted for 40% of total employment by U.S. affiliates in Europe in 2016. U.S. affiliates employed nearly 378,000 European workers in transportation and 300,000 in chemicals. Wholesale employment was among the largest sources of services-related employment, which includes employment in such areas as logistics, trade, insurance and other related activities.

- The manufacturing workforce of U.S. affiliates in Germany totaled 382,000 workers in 2016 – more than the number of manufactured workers employed by U.S. affiliates in Brazil (310,000) and India (209,000) but well below China (740,000).

- European majority-owned foreign affiliates directly employed 4.6 million U.S. workers in 2017 – some 90,000 more workers than in 2016, although roughly 225,000 workers less than U.S. affiliates employed in Europe.

- Firms from the UK, Germany, Switzerland and the Netherlands largely accounted for the boost in U.S. employment by European companies between 2015 and 2016, with companies from the four countries employing over 157,000 more U.S.-based workers in 2016 than in 2015.

- In 2016 the top five European employers in the U.S. were firms from the United Kingdom (1.2 million), France (729,000), Germany (692,000), the Netherlands (475,000) and Switzerland (471,000).

- European firms employed roughly two-thirds of all U.S. workers on the payrolls of majority-owned foreign affiliates in 2016.

- European companies account for 76% of total foreign FDI in U.S. manufacturing.

- European companies directly supported 173,000 jobs in the U.S. motor vehicles and parts industry – 42% of total foreign affiliate employment in this industry.

- Texas gained 132,000 jobs (56% more) directly from European investment between 2006 and 2016. Others with significant gains included California 97,000 (28.1%); New York 66,300 (23.5%); Illinois 58,800 (34.3%); Florida 42,700 (26.6%); Massachusetts 40,200 (33.7%); Pennsylvania 37,900 (20.8%); North Carolina 30,500 (19.8%); New Jersey 27,600 (16.2%); Georgia 26,100 (23.3%); Virginia 24,800 (22.1%); Ohio 23,500 (17.5%); Minnesota 23,300 (46%) and Tennessee 23,300 (31.2%).

- The top five U.S. states in terms of jobs provided directly by European affiliates in 2016 were California (442,500), Texas (367,900), New York (348,400), Illinois (230,100) and Pennsylvania (220,400).

The Transatlantic Digital Economy

- Cross-border data flows between the U.S. and Europe in 2015 were by far the most intense in the world – 50% higher than data flows between the U.S. and Asia in absolute terms, and 400% higher on a per capita basis.

- North America and Europe generate about 75% of digital content for internet users worldwide.

- U.S. and European cities (Frankfurt, London, Amsterdam, Paris, Stockholm, Miami, New York, Marseille, Los Angeles, San Francisco) are the world's foremost hubs for international communication and data exchange.

- Transatlantic cable connections are the densest and highest capacity routes, with the highest traffic, in the world, with an estimated 38% compound annual growth rate until 2025.

- The U.S. and Europe are each other's most important commercial partners when it comes to digitally-enabled services. The U.S. and the EU are also the two largest net exporters of digitally-enabled services to the world.

- In 2017, digitally-enabled services accounted for 55% of all U.S. services exports, 49% of all services imports, and 68% of the U.S. global surplus in trade in services.

- In 2017 the U.S exported $204.2 billion in digitally-enabled services to Europe and imported $123.7 billion from Europe, generating a trade surplus with Europe in this area of at least $80.5 billion, according to figures from the U.S. Bureau of Economic Analysis. U.S. exports of digitally-enabled services to Europe were 2.5 times more than U.S. digitally-enabled exports to Latin America and almost double U.S. digitally-enabled exports to the entire Asia-Pacific region.

- In 2017 EU member states exported $1.24 trillion and imported $1.02 trillion digitally-enabled services to countries both inside of and outside of the EU.

- Excluding intra-EU trade, EU member states exported $579.2 billion and imported $459.6 billion in digitally-enabled services, resulting in a surplus of $119.6 billion for these services.

- Digitally-enabled services trade represented 56% of all EU services exports to non-EU countries and 57% of all EU services imports from non-EU countries.

- The U.S. accounted for 31% of the EU's digitally-enabled services exports to non-EU countries, and 39% of EU digitally-enabled services imports from non-EU countries.

- The U.S. purchased $179.6 billion of EU digitally-enabled services exports according to OECD data for 2017, making it the largest non-EU consumer these services, and accounting for more EU exports than the rest of non-EU Europe ($122.5 billion), and more than all digitally-enabled services exports from the EU to Asia and Oceania ($165.4 billion).

- EU member states with the largest estimated value of digitally-enabled services exports were Germany ($171.6 billion), the United Kingdom ($149.3 billion), Ireland ($142.6 billion), and the Netherlands ($134.1 billion).

- Digitally-enabled services are not just exported directly, they are used in manufacturing and to produce goods and services for export. Over half of digitally-enabled services imported by the U.S. from the EU is used to produce U.S. products for export, and vice versa.

- In 2017, EU member states imported $1.02 trillion in digitally-enabled services, according to OECD data. 55% originated from other EU member states. Another 17% came from the U.S. ($177.0 billion), making it the largest supplier of these services. The EU imported more of these services from the U.S. than from EU member states Germany ($95.3 billion) and the UK ($112.7 billion).

- Over half of digitally-enabled services imported by the U.S. from the EU is used to produce U.S. products for export and vice versa - a value-added effect on trade not captured in standard metrics.

- Even more important than both direct and value-added trade in digitally-enabled services, however, is the delivery of digital services by U.S. and European foreign affiliates.

- In 2016 U.S. affiliates in Europe supplied $401.5 billion in digitally-enabled services; European affiliates in the U.S. supplied $244.4 billion in digitally-enabled services. Digitally-enabled services supplied by U.S. affiliates in Europe were double U.S. digitally-enabled exports to Europe, and digitally-enabled services supplied by European affiliates in the U.S. were also roughly double European digitally-enabled exports to the U.S.

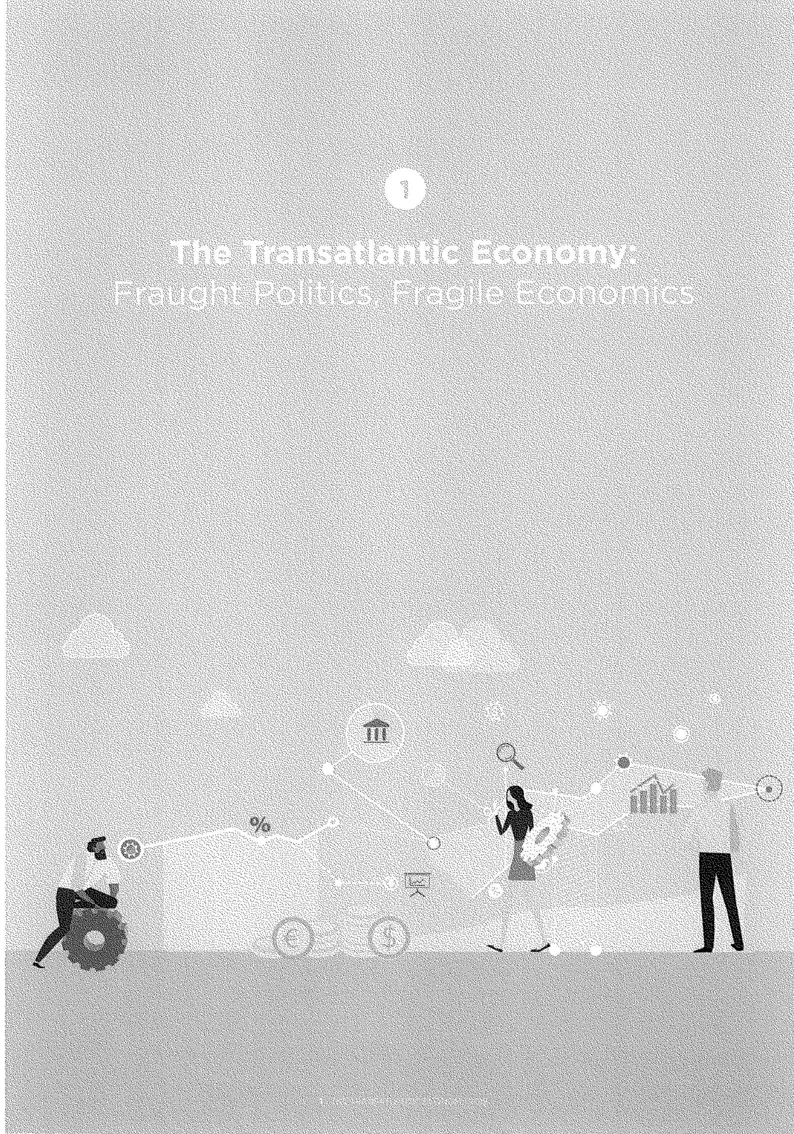
The Transatlantic Innovation Economy

- Bilateral U.S.-EU flows in R&D are the most intense between any two international partners. In 2016 U.S. affiliates invested $31.3 billion in research and development in Europe, representing 58% of total global R&D expenditures by U.S. foreign affiliates.

- R&D expenditures by U.S. affiliates were the greatest in Germany ($9.0 billion), the UK ($6.0 billion), Switzerland ($3.0 billion), Ireland ($2.9 billion), France ($2.3 billion) and and Belgium ($1.7 billion). These six nations accounted for 83% of U.S. spending on R&D in Europe in 2016.

- In the U.S, R&D expenditures by majority-owned foreign affiliates totaled $60.1 billion in 2016. R&D spending by European affiliates totaled $44 billion, representing 73% of all R&D performed by majority-owned foreign affiliates in the United States.

- Swiss-owned R&D in the U.S. totaled $10.6 billion in 2016, nearly a quarter of total European affiliate R&D in the United States. British affiliates accounted for 20%, German for 17.7% and French for 12.9%.



The Transatlantic Economy:
Fraught Politics, Fragile Economics

Economic uncertainty
Slowdown in global growth

Politics trumped economics in 2018 and threatens to do so again in 2019. Transatlantic trade and investment flows have been buffeted and unsettled by the Trump Administration's "America First" mantle and its attendant assertive trade and investment policies. Uncertainties over the United Kingdom's decision to leave the European Union (EU), known as Brexit, loom large in 2019. Political fissures have wrought economic damage across a number of continental European countries. All of these issues, in the context of a cyclical slowdown in global growth, are testing the resilience and strength of the transatlantic economy – still the most significant commercial artery for both sides of the North Atlantic.

The Trump team's primary target is China, not Europe. Yet Europe has not been able to escape the negative shocks from simmering U.S.-China trade disputes. One consequence of U.S. imposition of steel tariffs, for instance, was to divert steel from China and other countries to Europe, forcing the EU to impose its own set of restrictions.

The EU shares many of the Trump team's frustrations with Chinese cybertheft, its assaults on intellectual property, forced technology transfers, poor implementation of its World Trade Organization (WTO) obligations, and its state-subsidized overcapacity in steel and potentially autos, robotics and other sectors of the economy. Severe Chinese restrictions on investment by U.S., European and other non-Chinese companies in modern services, energy, agriculture and high-tech sectors are a further shared concern. Both are wary of growing investments by state-owned Chinese firms in Europe and the United States. Brussels has joined Washington and Tokyo in trilateral talks focused on the commercial challenges posed by China.

The International Monetary Fund (IMF) estimates that a full-blown trade war could shave 1.6% off of Chinese gross domestic product (GDP) and 1% off U.S. GDP. And while the United Nations Conference on Trade and Development (UNCTAD) estimates that in such a situation the EU theoretically stands to capture about $70 billion of the U.S.-China bilateral trade that would be diverted elsewhere, the shock waves generated by a U.S.-China trade war on other trade flows, investment decisions and currencies would likely also overwhelm European economies. Even absent a full-scale trade war, tit-for-tat protectionist measures between the U.S. and China, the world's two largest economies, have rattled global business confidence, raised uncertainty about the effectiveness of global supply chains, and contributed to slower growth in global trade. It has also undercut real growth and momentum in China and the United States and dampened economic activity around the world, including in trade-dependent Europe.

A second area of friction, less significant economically but equally fraught politically, is related to Iran. Furious after President Trump pulled out of the Iran nuclear deal and reimposed punitive banking sanctions last year, European leaders first set up a "blocking statute" to forbid European companies from complying with sanctions and then introduced a special purpose vehicle called Instex to prop up European business with Iran as one means to keep Iran in the deal. The move has heightened transatlantic tensions even though it is unlikely that any European companies would risk their substantial commercial engagement with the United States for far smaller opportunities with Iran.

Additional transatlantic economic challenges have been generated by political frictions over climate change, European levels of defense spending, and European energy dependencies on Russia.

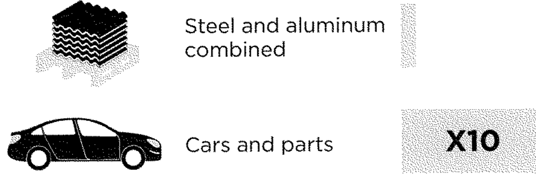
These issues offer a negative political backdrop for efforts by Washington and Brussels to kickstart U.S.-EU trade talks. Trade tensions between the United States and the EU were coming to a boil until President Trump and European Commission President Jean-Claude Junker declared a "truce" in July 2018. The two sides are now re-launching bilateral trade negotiations, but with very different goals in mind.

The Trump Administration is adamant about including agriculture in the negotiations, which the EU resists. It still holds open the possibility of invoking section 232 of the Trade Expansion Act of 1962 to move ahead with tariffs on EU cars and auto parts – the same national-security grounds the White House used to impose levies on foreign steel and aluminum, which prompted the EU to retaliate with duties on U.S. goods. U.S. auto-related tariffs would further inflame tensions, given that EU automotive exports to the United States are about 10 times greater in value than EU steel and aluminum exports combined. German producers would be the biggest losers: Germany alone accounts for 60% of Europe's €40 billion in annual exports of cars and parts to the United States.

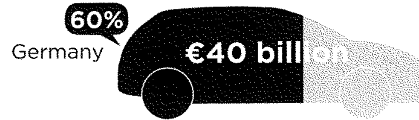
The EU, in turn, is keen to eliminate transatlantic tariffs on industrial goods and automobiles that Trump is

Why auto-related tariffs would further inflame EU-U.S. trade tensions

1. EU exports to the U.S.: a comparison



2. Annual EU exports of cars and parts to the U.S.



fighting to protect. Trump has pledged not to impose auto duties as long as talks continue in good faith. But prospects of a quick agreement are slim. If the U.S. administration imposes Section 232 tariffs on European cars, the EU will end the negotiations and impose tariffs in response, as it did with steel and aluminum, by identifying products that are politically sensitive in the United States, but which are readily substituted in the EU, in order to minimize any negative effects for European firms and consumers. Not only would the economic scale of such a dispute be significantly greater than the irritation caused by the tariffs currently in place, a transatlantic trade dispute could easily spill over into national security issues, possibly damaging NATO and the broader transatlantic relationship.

These tensions are unfolding in the context of a slowdown in global growth. Prospects of a global recession remain minimal: the Big Three – the United States, China and the European Union – are all expected to post positive real GDP growth this year, although growth rates will be down from the prior year. The key worry, then, is not the economics associated with what could be a modest cyclical slowdown, but political instabilities that could confound efforts to manage a downturn.

Transatlantic Economic Outlook

In short, the transatlantic economy enters 2019 on unsettled ground, beset by political volatility and economic uncertainty. Transatlantic economic growth is set to slow. The United States is expected to outperform relative to the European Union and most countries in Europe.

A year ago, the situation was different; the transatlantic economy was in sync – the United States and Europe were expanding in tandem owing to a number of variables, including rising consumption levels, investment outlays and trade volumes. By mid-year, however, the paths of the two economies had diverged; growth noticeably slowed across Europe in the second half of 2018, while the U.S. economy powered ahead.

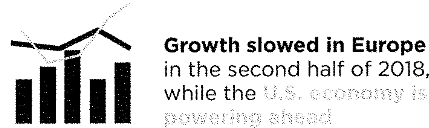
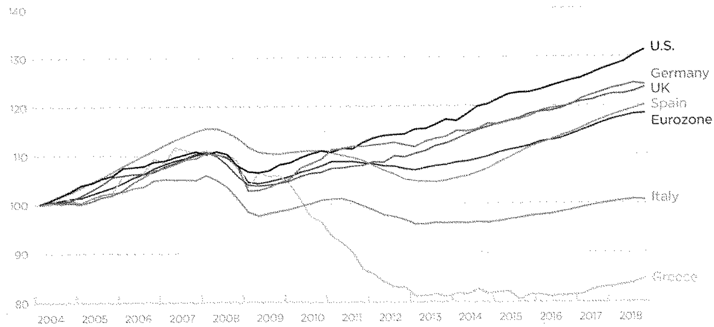


Table 1 **Most Developed Economies Back Above Pre-Recession Output Levels** (Real GDP level, Q1 2004 = 100)

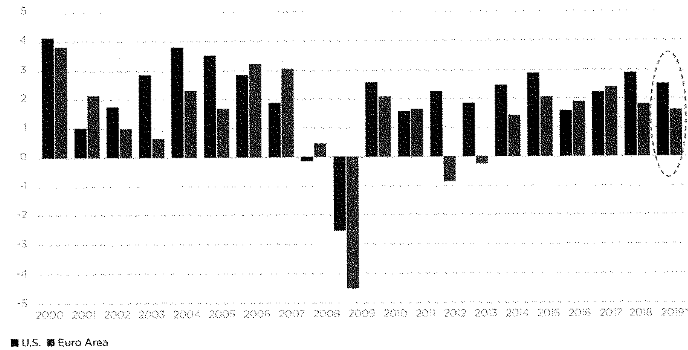


Source: Haver Analytics.
Data through Q3 2018.

According to the latest figures from the IMF, the eurozone is expected to expand by just 1.6% this year, down from 1.8% in 2018. Growth momentum has been sapped by a number of political variables, ranging from street protests in France, political uncertainty over Brexit, and financial stress in heavily-indebted Italy. Overlaid with U.S.-China trade tensions, consumer and business confidence has declined across Europe, and is not likely to rebound anytime soon, as Brexit drags on and Europe braces for May elections to the European Parliament, which could usher in more Euroskeptic, anti-immigration policies, triggering additional economic and market volatility.

In the United States, meanwhile, one of the longest economic expansions in modern history continues. In 2018, the U.S. economy grew by 2.9%. Economic momentum will downshift in 2019, with growth

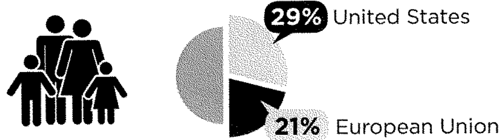
Table 2 **U.S. vs. Euro Area Real GDP,** Real GDP, Annual Percent Change



■ U.S. ■ Euro Area

**2019 forecast.*
Data as of January 2019.
Source : International Monetary Fund; Bureau of Economic Analysis; Eurostat.

Global personal consumption (2017)

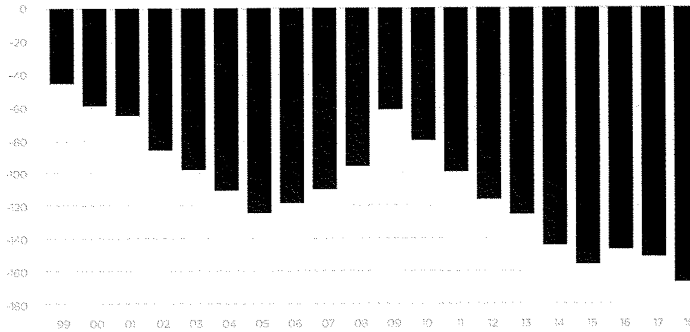


slowing on the account of the lagged effects of monetary tightening, the waning fiscal stimulus (including tax reform) and downdraft in capital investment. However, prospects of a recession in the United States are slim thanks to healthy levels of personal consumption.

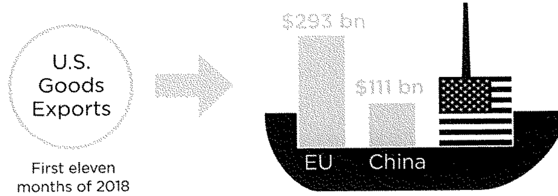
A key bright spot for both U.S. and European firms is the U.S. consumer, who remains one of the most potent economic forces in the world, accounting for roughly 29% of global personal consumption in 2017, the last year of available data. Totaling over $13 trillion, U.S. consumer spending is greater than the combined spending of the next five largest consuming markets in the world: China, Japan, Germany, the United Kingdom, and India.

The one-two combination of solid employment gains and higher wages has underpinned consumer confidence and spending, with U.S. consumer spending accounting for nearly 70% of U.S. gross domestic product. And since many European firms sell more goods and services in the United States than in their home markets, buoyant U.S. consumer spending positively spills over to Europe via enhanced sales of European affiliates in the United States and higher European exports. Fully half of the world's personal consumption in 2017 was accounted for by the United States (29%) and the European Union (21%) - a reflection of the overarching attractiveness of the transatlantic market.

Table 3 **U.S. Merchandise Trade Balance with the EU** (Billions of $)



**2018 estimate.*
Source: United States Census Bureau.



This wealth underpins bilateral trade. Indeed, transatlantic trade still stands as the largest such relationship in the world, even when compared to America's trade ties with China. In the first eleven months of 2018, for instance, U.S. goods exports to the European Union totaled $293 billion, up 13.2% from the same period earlier and over 2.5 more than U.S. exports to China ($111 billion). U.S. goods imports from the EU totaled $447 billion, leaving a sizable trade gap of $154 billion, up 14% from the prior year. America's merchandise trade deficit with the EU reached an estimated $168 billion in 2018, a record high and a thorn in the side of a Trump Administration fixated on bilateral trade deficits. America's deficit with China was larger (estimated at $417 billion), although that will provide little ballast to U.S.-Europe trade negotiations. America's expanding trade deficit with Europe will remain a constant source of tension between the two parties again this year.

Meanwhile, unemployment levels on both sides of the Atlantic have improved over the past year, notably in the United States. Heading into 2019, the job market in America is one the tightest in decades. The national unemployment rate for December 2018 clocked in at 3.9%; among workers with a four-year degree or more, the unemployment rate was 2.1% in December, which is basically full employment. Job openings were a staggering 7.3 million in December 2018. Moreover, roughly 428,000 manufacturing jobs remained unfilled, a fact largely overlooked by pundits and politicians tuned into the false narrative that America is not in the business of "making stuff", or manufacturing. Nothing could be further from the truth.

Among the skilled labor pool in the United States, the unemployment rate hovered around 2% for the balance of 2018. Most new jobs, however, have not tended to be in high-paying services jobs, where the

Table 4 **U.S. vs. EU Unemployment Rate** Harmonized Unemployment Rate (%)

*2018 EU data is for November 2018, U.S. data is for December 2018.
Source: OECD.

U.S. traditionally has excelled, but in workaday services positions, where pay is mediocre. Automation is changing the very nature of work in many areas, less in terms of replacing workers than displacing them from higher-wage, higher-productivity sectors to lower-wage, lower-productivity sectors of the economy.[1] The U.S. economy continues to evolve, unevenly, but still on a positive trajectory for jobs and growth.

The eurozone unemployment rate fell to a decade-record low of 7.9% in December 2018 - a positive sign, although that figure was nearly double the same rate in the United States. Regional divergences persist: Germany's unemployment rate (3.3% in December 2018) was well below comparable rates in France (9.1%), Italy (10.3%), Spain (14.3%), and Greece (18.6%).

In sum, fraught transatlantic politics threaten to exacerbate an economic situation that, while still positive overall, is more fragile than a year ago.

Box 1. Brexit Update: As Clear as Mud

The decision by the United Kingdom in 2016 to quit the European Union ("Brexit") and the subsequent negotiations to settle terms of divorce have generated deep fissures through British society and rattled markets throughout Europe. The negotiations have become sloppy, torturous and fraught with downside risks for the United Kingdom, the European Union and the United States.

By some measures, the UK economy is in a relatively strong position to weather the Brexit storm. UK employment reached its highest level on record at the end of 2018 and total pay grew at its fastest in over a decade. Nonetheless, potentially gale-force winds can be felt. The UK economy slowed markedly in 2017 and again in 2018, weighed down by flagging private consumption owing in part to the pound's depreciation and the attendant rise in inflation and loss of real disposable income. Real estate prices have weakened. Ernst and Young expects a trillion euros in bank assets to flee the UK. More than one in seven European companies with UK suppliers have moved part or all of their business out of Britain. UK-based EU institutions are decamping for other parts of Europe. U.S. foreign direct investment flows to the UK plunged by 31% in 2017 and by another 9.8% in the first nine months of 2018. The UK government itself estimated that under the terms of the 2018 UK-EU draft agreement - rejected by the British Parliament yet deemed the best deal the UK could expect by the EU - the British economy would shrink by 3.9% (a loss of £100 billion) by 2030. And without a deal, the Confederation of British Industry concluded that every part of the United Kingdom would pay an "unacceptable economic price." No matter what the Brexit terms may be, the process is likely to unsettle markets and cast a cloud over the UK's relations with key partners for many years.

2019 is crunch time. The UK must not only define the nature of its exit from the EU, it will also have to do three other things that will affect U.S. and wider European economic interests. First, it will have to replace the EU's common external tariff with its own customs tariff, and submit new tariff commitments for goods and services at the World Trade Organization. Second, it must negotiate new trade arrangements between the UK and the EU27. Third, it will want to negotiate new trade arrangements with the United States and many other non-EU states. Yet Britain has failed to finalize most trade deals needed to replace the EU's 40 existing agreements with leading global economies and will not be close to doing so when Brexit occurs on March 29. Without a formal Brussels divorce agreement, most of the deals would lapse, putting more than £150 billion of UK trade at risk. And even with an agreement in hand, the UK is likely to remain under the EU umbrella for at least two additional years, pending a UK-EU trade agreement - but as a rule taker, not a rule maker.

Moreover, a future UK-EU trade framework is unlikely to simply replicate UK access to the Single Market. The terms are likely to be less advantageous and more burdensome. While tariff-free access for goods is a possibility, firms based in the UK are likely to face some local content requirements within the EU. Tariff-free access to services is unlikely as well, which represents a blow to the UK's services-based economy. At risk: UK financial, transportation, logistics and insurance companies as well as UK-based U.S. and EU affiliates in those sectors.

Meanwhile, EU rules mean that London cannot legally begin negotiating a trade deal with Washington before the UK leaves the EU. With U.S.-UK relations notably strained under the Trump administration, no deal is likely anytime soon, which portends more U.S. disinvestment from the one-time prime location for U.S. multinationals doing business in the EU.

After the Netherlands, America's corporate stakes in the United Kingdom are among the deepest in the world. Totaling $748 billion in 2017, the last year of available data, America's capital stock in the UK is more than double the combined investment in South America, the Middle East and Africa ($253 billion). Total U.S. investment stock in China was just $108 billion in 2017. Even when the U.S. investment presence in China and India are combined – totaling $152 billion in 2017 – the figure is just 20% of total U.S. investment in the UK.

Wealthy consumers, respect for the rule of law, the ease of doing business, credible institutions, membership in the European Union—all of these factors, and more, have long made the UK a more attractive place to do business for American firms. Whatever the metric – total assets, R&D expenditures, foreign affiliate sales, employment, trade, etc. – the United Kingdom has been a long-time pillar of America's global economic infrastructure and a key hub for the global competitiveness of U.S. firms. Since 2000, the UK has accounted for nearly 9% of the cumulative global income of U.S. affiliates, a proxy for global earnings. In the first nine months of 2018, U.S. affiliate income earned in the UK was a robust $34.2 billion, a 21% increase from the same period a year ago. For all of Europe, it was up 10%.

In the end, Brexit is likely to prove costly for the United Kingdom and dampen the business climate in the EU. Many indicators suggest that the impending separation will weigh on real economic growth, subdue consumer and business confidence, spur disinvestment from foreign investors, and trigger bouts of political instability. That said, the cost to U.S. multinationals remains unclear. Firms are hedging their positions in the UK by exploring alternative locations in the European Union, with Germany, France, the Netherlands, and Ireland among the favored locations for ex-UK investment. A deeper issue for Corporate America is the future contours of the transatlantic economy and the future path of the transatlantic partnership. On both sides of the ocean, the political bonds are fraying, portending tougher times in terms of promoting deeper transatlantic investment and trade ties.

Endnotes

1 C. Daron Acamoglu and Pascual Restrepo, "Automation and New Tasks: The Implications of the Task Content of Production for Labor Demand," working paper for *Journal of Economic Perspectives*, November 6, 2018. https://economics.mit.edu/files/16338.
2 Seema Malhotra, "Brexit trade uncertainty threatens to set UK back by 46 years," *Financial Times*, December 9, 2018.
3 James Blitz, Jim Pickard and George Parker, "UK fails to close global trade deals ahead of Brexit deadline," *Financial Times*, January 17, 2019.

Statement of the U.S. Chamber of Commerce

ON: "Comments on Negotiating Objectives for a U.S.-European Union Trade Agreement," docket number USTR 2018-0035

TO: Office of the U.S. Trade Representative

BY: U.S. Chamber of Commerce

DATE: November 26, 2018

1615 H Street NW | Washington, DC | 20062

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. In addition to 117 American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

The U.S. Chamber of Commerce appreciates the opportunity to present the following comments to the Office of the U.S. Trade Representative on its "request for comments on Negotiating Objectives for a U.S. European Union Trade Agreement" pursuant to 83 FR 57526, docket number USTR-2018-0035 (November 15, 2018). The Chamber is the world's largest business federation, representing the interests of more than three million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations, and it is dedicated to promoting, protecting, and defending America's free enterprise system.

Introduction

The U.S. business community is encouraged that the United States and the European Union (EU) have returned to the negotiating table and are committed to securing tangible improvements in the transatlantic commercial relationship. We are ready to work with both sides to strengthen ties between the world's two largest economies.

In keeping with the Chamber's mission to advocate for free enterprise, competitive markets, and rules-based trade and investment, one of the Chamber's primary objectives in these negotiations will be to pursue measures that remove—and do not raise—barriers to trade. We recommend hewing closely to the negotiating objectives established in the U.S. Bipartisan Congressional Trade Priorities and Accountability Act of 2015, known as Trade Promotion Authority (TPA).

Overarching Priorities

Before addressing near term opportunities, the two sides should address a range of longstanding issues and barriers. Reducing or eliminating these barriers would significantly boost the long-term economic outlook for both the U.S. and the EU. Greater transatlantic cooperation would also provide a pathway for joint leadership in response to shared challenges in a rapidly changing global economy.

- Section 232 Tariffs: Remove expeditiously the U.S. Section 232 tariffs on imports of steel and aluminum from the European Union, and remove corresponding European retaliatory measures. Avoid imposition of U.S. Section 232 tariffs on imports of European autos or auto parts.
- Managed Trade: Oppose "grey area" measures, such as tariff-rate or snapback quotas, voluntary export restraints, and orderly marketing agreements that limit trade and violate the World Trade Organization (WTO) Agreement on Safeguards.
- Currency: Do not infringe on the Federal Reserve Bank's ability to steer the conduct of U.S. monetary policy in any efforts to address currency manipulation in this trade agreement.
- Third Countries: The U.S. and the EU should cooperate to create tangible benefits for and protect American and European companies and workers from non-market oriented policies and practices by third countries.
- Multilateral Trading System: The U.S. and EU should jointly strengthen global trade rules and institutions, including through the trilateral dialogue chaired by Ambassador Robert E. Lighthizer, United States Trade Representative, Mrs. Cecilia Malmström,

European Commissioner for Trade, and Mr. Hiroshige Seko, Minister of Economy, Trade and Industry of Japan.

- Trade in Industrial Goods: Eliminate all tariffs on non-auto industrial goods traded between the U.S. and the EU.
- Trade in Services: Promote binding commitments to services market access, including for new services.
- Trade in Agricultural Products: Address non-science-based restrictions on agricultural trade in a transparent and timely fashion.
- Intellectual Property Rights: Establish new rules to protect trade secrets, eliminate forced technology transfers, and reduce barriers to foreign direct investment.
- Promote Innovation: Ensure the highest standards of intellectual property protection across all industries to enhance U.S. and EU leadership in innovative industries.
- Regulatory Cooperation: Pursue new sectoral agreements that minimize duplicative testing and certification requirements, and create new meaningful regulatory cooperation dialogues.
- Good Regulatory Practices: Formalize a joint commitment to follow good regulatory practices, including sufficient advance notice and comment periods and in-depth stakeholder engagement.
- Emerging Technologies: Promote effective regulatory cooperation to jointly address emerging technologies and prevent unnecessary regulatory divergence.
- Data Flows: Prevent restrictions on the free flow of data.

Near Term Opportunities

There are a wide range of near term opportunities for progress both on cross-cutting horizontal issues, as well as in specific sectors. Taken collectively, these measures would provide a significant boost to the U.S. economy and strengthen the transatlantic partnership at a time when joint leadership is essential.

- Harmonize and align customs classifications for goods based on their uses.
- Eliminate or significantly streamline licensing requirements for U.S. LNG exports to non-FTA partner countries such as the EU.
- Resolve longstanding market access issues, such as increasing EU imports of non-hormone treated beef from the U.S.
- Declare an in-principle agreement to maintain existing market access levels for services, and establish a framework for cooperation towards elimination of services trade restrictions in third countries.
- Launch a dialogue on standards and conformity assessment that includes active stakeholder engagement.

Digital Trade

- Ensure the EU-U.S. Privacy Shield remains in place.
- Prohibit data localization requirements, including in third countries.
- Work towards developing common mechanisms around data privacy and data transfers to promote further compatibility and ease of doing business, as well as to facilitate interoperability with other privacy regimes (e.g. APEC CBPR).

- Enhance coordination and cooperation on cybersecurity to prevent regulatory divergence and align national cyber regulations with industry-supported international standards and best practices.
- Jointly engage with third countries to ensure that cybersecurity regulations are not used to establish barriers to trade and investment.
- Expand cooperation to reduce the frequency and magnitude of cyberattacks by facilitating cross-border threat intelligence sharing and the implementation of international cyber norms.
- Eliminate practices that deter investment, delay innovation, and cut consumers off from the best digital products and services.
- Protect algorithms and source code by prohibiting transfer or access as a condition for market entry.
- Secure bilateral agreement under the U.S. CLOUD Act and EU e-Evidence Regulation for law enforcement access to data.
- Secure EU-wide exception to allow for text and data mining under the new EU Copyright Directive.
- Include protections for online platforms and marketplaces to host lawful speech and commerce without being treated as the originators of content.

Customs and Trade Facilitation

- Harmonize and simplify customs clearances processes to include processes for obtaining immediate release of goods upon arrival and to facilitate low value shipments.
- Improve transatlantic customs clearance efficiency for private shipments.
- Rely more on advanced data mechanisms to pre-clear goods and reduce costs.
- Facilitate submission and processing of documentation via Single Window.
- Raise European *de minimis* to commercially meaningful levels to facilitate SME trade and e-commerce.
- Work to improve, expand, and—where possible—encourage greater convergence of U.S. and EU trusted trader programs.
- Create sector-specific "fast lane" processing pilot projects.
- Improve upon common data elements for imports and exports.
- Create binding rules on express delivery shipment channels.

Small & Medium-sized Enterprises (SMEs)

- Establish a committee of SME representatives and government officials to develop policy proposals to facilitate SME trade and investment.
- Set up a dedicated website to ensure SMEs have ready access to tailored information on: protecting intellectual property; foreign investment regulations; business registration procedures; employment regulations; and taxation procedures.

Sector-specific Priorities

- **Automobiles**
  - Work to establish mutual recognition of existing standards, in close coordination with industry.
  - Develop a common framework for joint U.S.-EU development of future standards.

- **Energy**
  - Do not regulate LNG pricing or institute EU quotas for U.S. LNG imports.
  - Remove EU duties on base oils.
  - Encourage the EU to renew its Energy Star Agreement with the U.S. and recognize any subsequent revisions to the Energy Star program.

- **Medical Devices**
  - Promote greater cooperation between relevant U.S. and European. regulators to reduce unnecessary duplication of testing, spur innovation, and provide greater access to the best available medical devices.
  - Secure necessary changes to the transition period for the EU Medical Device Regulation (MDR).[1]
  - Secure assurances that CE-marked medical devices certified by UK-based Notified Bodies will remain legally valid in the EU market when the UK leaves the EU, with or without a Brexit Withdrawal Agreement.

- **Services**
  - Establish binding market access and national treatment commitments for services, including transportation, logistics, information and communication technologies, and financial services.
  - Promote greater stakeholder engagement opportunities within existing fora, e.g. the EU-U.S. Joint Financial Regulatory Forum, to identify and address specific regulatory issues and resolve longstanding concerns.
  - Ensure EU regulatory practices vis-à-vis third-country providers do not result in disadvantages or unequal treatment, and that deference and outcomes-based approaches are practiced so as to minimize extraterritorial application of EU rules.
  - Rescind EU proposals that would subject U.S. financial service providers to double supervision in the EU at both the national and ESMA level (e.g. benchmark providers).

- **Financial Services**
  - Promote regulatory equivalence and ongoing regulatory cooperation to encourage continued cross border activity with appropriate levels of oversight.
  - Ensure the free flow of data and prohibit data localization requirements, including for financial services.
  - Ensure other digital trade elements of the agreement also apply to the financial sector, i.e. no carve outs for the sector in terms of coordination and collaboration on cyber,

[1] Background: More than one year after the May 2017 entry into force of the MDR, it is clear that the transition period is not sufficient and, without adjustments, will lead to significant regulatory bottlenecks, cause disruption in the supply of medical devices and, ultimately harm patient access to medical devices. The EU's regulatory system – especially the EU-designated Notified Bodies – does not have the capacity to implement the new MDR in the specified timeframe either for medical devices (2017-2020) or for in vitro diagnostic products (IVDs) (2017-2022). The MDR's transition period must be changed now to allow for more time to ensure a smooth transition to the new regulations. The EU should: (1) extend the implementation dates; (2) grandfather medical devices and IVDs already on the market; (3) postpone evaluation of products on the market; or some combination of these measures.

protection of source codes and algorithms, forced technology transfer and the purchase of use of particular technologies.
- Collaborate to create and enhance a regulatory sandbox for fintech companies, as well as traditional financial institutions, on an equal basis.
- Promote the use of cloud technologies in the financial sector.
- Engage with stakeholders to discuss broadening cross-border supply commitments for financial services.
- Include broad commitments on procurement of financial services.

- **Chemicals**
  - Eliminate U.S. and EU chemical tariffs immediately, and collaborate to make eliminating tariffs on chemicals a multilateral objective.
  - Regulatory cooperation in chemicals management:
    - Promote more efficient and effective cooperation between EU and U.S. regulatory chemicals management systems, focusing on common principles for information sharing, prioritizing chemicals for review and evaluation, and coherence in hazard and risk assessment (based on the weight of scientific evidence).
    - Institute a harmonized approach to data assessment to simplify the registration process and improve transparency and efficiency, while providing effective human health and environmental protections
  - Focus on establishing common principles for data quality, including utility, objectivity (which includes reproducibility), and integrity.
  - Re-engage on existing U.S.-EU pilot projects to identify further areas of cooperation and promote the mutual recognition of data.[2]
  - Promote greater coordination between the newly upgraded TSCA and REACH to achieve our shared goals of high standards of health and human safety: foster more efficient compliance by large and small companies; encourage innovation and access to market; create resource sharing opportunities for regulators; and support greater transparency and credibility with the public.

- **Pharmaceuticals**
  - Zero-tariff market access should apply to pharmaceuticals and to biopharmaceutical R&D and manufacturing inputs.
  - Jointly promote high-level global standards on intellectual property and innovation, particularly in multilateral organizations.
  - Encourage early resolution of patent disputes to ensure market predictability, and prevent infringing products from making it to the market.
  - Promote greater regulatory cooperation efforts between the U.S. Food and Drug Administration (FDA) and the European Medicines Agency (EMA) to reduce

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[2]For example, commitments should include the promotion of greater coherence between diverging U.S. and EU Classification and Labelling schemes and the implementation of the UN Globally Harmonized System for Classification and Labeling (GHS) as a common classification inventory (effectively leveraging existing work). Such a common approach would reduce or eliminate the need for dual classifications for chemical substances, reduce costs and inefficiencies for companies and governments, and facilitate trade.

unnecessary duplication of testing, spur pharmaceutical innovation, and provide greater access to medicines, including:

- Better alignment of U.S.-EU pediatric scientific approaches to minimize duplication and streamline medicines development for children, thereby reducing the time necessary to get innovative products to the market and lowering costs, while avoiding redundant clinical trials on children.
- Manufacturing changes: EMA and FDA should work together to develop a more harmonized approach to post-approval variation submissions for manufacturing changes. This should include aligning classification of changes, type of submission required, and timelines.

- Work to ensure pricing and reimbursement systems accurately and fairly reflect the value of R&D processes.
- Extend existing mutual recognition agreement to cover veterinary medicines and vaccines.
- Create a U.S.-EU medicines and medical devices working group to ensure ongoing coordination and provide transparent opportunities for stakeholder engagement.

- **Agriculture and Biotechnology**
  - Encourage timely, transparent, science-based approval systems for biotechnology and chemistry products. Already established timelines must be respected.
  - Establish a working group with stakeholder involvement to identify and address specific regulatory issues, and resolve longstanding concerns.

- **Delivery Services**
  - Ensure the U.S. and EU remain world leaders in effective postal regulation.
  - Commit to fair, non-discriminatory treatment of non-postal service providers through the inclusion of a delivery services sectoral annex in the agreement to ensure that U.S. and EU consumers and businesses retain access to world-class delivery service options.

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U.S. Chamber of Commerce

Driving the Strong Economic Relationship Between the U.S. and Europe

GARRETT WORKMAN
Director, European Affairs

Photo credit: Chris Ratcliffe/Bloomberg.

The relationship between the U.S. and Europe is the most successful bilateral commercial partnership in the world. Companies, workers, and citizens in both economies reap considerable benefits from the incredibly strong commercial and strategic ties across the Atlantic.

At the U.S. Chamber of Commerce's recent second annual Transatlantic Business Works Summit, American and European leaders from across business and government came together to discuss the tremendous benefits from transatlantic trade and investment. At the event, we launched our *Transatlantic Economy 2019 report*, which clearly demonstrates the positive impact that transatlantic investment and trade have in creating jobs across the U.S. and Europe.

More than $3.75 billion in goods and services are traded across the Atlantic each day, and two-way trade and investment supports more than 16 million high-skilled, high-paying jobs. Moreover, half of all U.S. companies' direct investments abroad are bound for Europe – and vice versa. Moreover, the study shows that those companies which invest and succeed at home are also the most successful and innovative here at home.

While there are many benefits of our close ties, there are equally grave risks coming from escalating tensions across the Atlantic.

But the U.S. and Europe have many opportunities to overcome these tensions and continue to boost growth, foster the creation of good jobs, and enhance our competitiveness through a reinforced partnership. These opportunities include pursuing a positive bilateral trade agenda, jointly addressing our shared global challenges, promoting regulatory cooperation, advancing the digital economy, and more.

In light of the ongoing Brexit debate, it's important to underline that close working relations between the U.S. and both the European Union and the United Kingdom are essential. The UK's pending departure from the EU will require the U.S. and UK to reset the terms of our bilateral relationship. In no way does that alter or lessen the vital importance of continuing to strengthen the U.S.-EU relationship.

We look forward to working with businesses and governments on both sides of the Atlantic to build on our shared strengths in the weeks and months ahead.

About the Author

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U.S. Chamber of Commerce

Transatlantic Business Works - Policy Priorities and Recommendations

Monday, April 8, 2019 - 9:00am

Today, the U.S. Chamber is proud to host our second annual Transatlantic Business Works Summit highlighting the strengths of the most successful bilateral commercial partnership in the world—between the United States and Europe. Companies, workers, and citizens on both sides of the Atlantic reap considerable benefits from the world's largest economic and strategic relationship.

According to our recently released Transatlantic Economy 2019 report, more than $3.75 billion in goods and services are traded across the Atlantic each day, and two-way trade and investment supports more than 16 million high-skilled, high-paying jobs. Moreover, half of all U.S. companies' direct investments abroad are bound for Europe — and vice versa.

There are innumerable opportunities to strengthen this partnership. As economies that together account for well over one-third of the world's GDP and half of global personal consumption, the United States and Europe together can shape the rules of global trade for the 21st century as no others can. But, there are equally grave risks if transatlantic political tensions escalate. Following are suggestions on how the United States and Europe can boost growth, foster the creation of good jobs, and enhance our competitiveness through a reinforced partnership:

- **Pursue a positive trade agenda.** U.S. and European policymakers should seize the opportunity created by the July 2018 agreement between President

Trump and European Commission President Juncker to lower tariffs and non-tariff trade barriers—and they must avoid raising tariffs

- **Jointly address global challenges.** In a fast-changing global economy, the U.S. and Europe must work together to address shared challenges. This includes securing meaningful WTO reforms to address state subsidies, forced technology transfers, the theft of intellectual property, and to promote fair competition. The United States and Europe should also collaborate closely with other partners such as Japan to respond to the challenges posed by unfair trade and industrial policies.
- **Promote regulatory cooperation.** The United States and Europe should partner to establish common standards where none yet exist and pursue mutual recognition of existing regulations where different approaches meet common regulatory objectives. For example, as the automotive industry shifts its focus to electric and autonomous vehicles, there are ample opportunities for cooperation, including the development of smart infrastructure, new communications systems, and safety standards. The two sides should also expand existing regulatory cooperation and data-sharing practices in the life sciences sector, covering pharmaceuticals, medical devices, and biotechnology. Such cooperation can proceed regardless of whether formal trade talks are underway and should draw wherever possible on the work of voluntary, market-driven, and internationally recognized standards. Moreover, the United States and Europe should continue to support high-level intellectual property standards and work together to strengthen IP rights in third countries.
- **Partner to advance the digital economy.** The United States and Europe are pacesetters in digitalization. As we develop strategies on cybersecurity and AI, the two sides should develop common approaches reflecting our shared democratic values and commitment to transparent multi-stakeholder processes. Privacy Shield must be re-affirmed to ensure commercial data can continue to be lawfully transferred across the Atlantic. The United States and Europe should cooperate under the terms of the CLOUD Act to ensure law enforcement agencies have legal grounds to access personal data when necessary. Finally, both sides must take steps to ensure the Internet remains globally connected and interoperable. Our interdependent digital economies and security depends on the ability of data to move across borders efficiently and safely.
- **Enhance transatlantic energy security.** The United States should immediately pass legislation to facilitate exports of liquefied natural gas to Europe, and Europe should step up efforts to build the necessary infrastructure to import LNG and to transfer it across the continent. Additionally, the two sides should increase research and development funding for programs that boost energy efficiency.

- **Modernize tax policy to reflect digitalization of the global economy.** In light of the changing nature of the global economy, an informed and inclusive discussion on how to modernize the international tax system is in order. Consideration of any measures to modernize the international tax system should occur in multilateral settings like the OECD and should be adopted only after constructive dialogue with stakeholders. Unilateral actions threaten transatlantic economic interests including bilateral trade and investment, erode trust, and undermine prospects for international agreement.
- **Encourage opportunities for small and medium-sized enterprises.** Small and medium-sized businesses stand to benefit most from efforts to integrate the transatlantic marketplace and are among the most adversely affected by barriers to trade. The United States and Europe should build on their existing initiatives to educate smaller firms about the opportunities of transatlantic trade and make additional resources available to enable these firms to leverage them.
- **Focus on sustainable development and resource efficiency.** The United States and Europe should work closely with stakeholders to create incentives to boost the circular economy and promote resource efficiency. Transatlantic cooperation on sustainable agriculture, energy, waste, and water policy will make it easier for American and European companies to lead global efforts to address key resource challenges and a changing climate while protecting economic growth.
- **Reinforce cooperation in defense and security.** As NATO celebrates its 70th anniversary, the security relationship remains a cornerstone of cooperation between the United States and Europe. In light of a fast-changing global security environment, including new threats in the form of cyber-attacks and disinformation campaigns, transatlantic cooperation is vital. As the EU works to boost its own strategic capabilities and defense resources, its efforts must be complementary to and coordinated with NATO's priorities. Moreover, the two sides should work to ensure continued open and competitive defense procurement practices.
- **Close working relations between the United States and both the European Union and the United Kingdom are essential.** The UK's departure from the EU will require the U.S. and UK to reset the terms of our bilateral relationship. In no way does that alter or lessen the vital importance of continuing to strengthen the U.S.-EU relationship. Moreover, after Brexit, it will be essential for American and European companies that both the U.S. and EU continue to maintain close economic relationships with the UK.

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