NEW DIRECTION
THE FOUNDATION FOR EUROPEAN REFORM



Winning the Trade Peace:
How to make the most of the EU-US Trade & Investment Partnership

Dan Hamilton

May 2013

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This publication received funding from the European Parliament. However, the views expressed in it do not necessarily reflect those of the European Parliament.

May 2013

Printed in Belgium

ISBN: 978-2-87555-041-5

Publisher and copyright holder:
New Direction Foundation
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In Brief

We should:

- Aim to create 10 million of new jobs in an open transatlantic market by 2020 and chart a roadmap towards that end.
- Commit to open and renew the transatlantic market by forging a more ambitious and relevant new-generation agreement, rooted in the distinctive nature and potential of the transatlantic partnership.
- Reposition the transatlantic partnership with regard to third countries to open markets and strengthen the ground rules of the international economic order.
- Open the transatlantic services market, awakening the sleeping giant. Protected services sectors on both sides of the Atlantic account for about 20% of combined U.S.-EU GDP – more than the protected agricultural and manufacturing sectors combined.
- Reinvigorate the Transatlantic Investment Dialogue, eliminate bilateral investment barriers, align bilateral investment competences, and look for common approaches to restrictions on investment in third countries.
- Adopt a goal to eliminate unnecessary regulatory differences by 2020. Overall risk stringency of risk-reducing regulatory decisions in the U.S. and EU is about the same.
- Boost the transatlantic innovation economy. Bilateral U.S.-EU flows in research, development and innovation are essential to such leading-edge sectors as semiconductors, biotechnology and nanotechnology.
- Eliminate tariffs and other barriers to transatlantic trade and investment in environmental goods and services.
- Stand together for Intellectual Property Rights (IPR). A convergence of IPR regulations between the EU and the U.S. is estimated to generate an increase in national incomes by €0.8 billion ($1.1 billion) in the EU and $4.8 billion (€3.7 billion) in the U.S.
- Extend the rules-based multilateral system to new areas. While staying committed to the multilateral trade liberalization agenda under the auspices of the WTO, EU member states and the U.S. should work together and with other like-minded partners to extend the rules-based multilateral system to new areas of endeavor.
- Codify and align existing U.S. and EU free trade agreements to boost the multilateral system.
- Facilitate closer economic integration among regional initiatives. In addition to bilateral FTAs and related market-opening initiatives, regional groupings are also exploring ways to align more closely with each other, for instance APEC, the EU and NAFTA.

Executive summary

The world that created the transatlantic alliance is fading fast. Americans and Europeans must urgently build a robust Transatlantic Partnership that is more effective in generating economic opportunity for their citizens and companies; in dealing with new partners, especially in the emerging growth markets; and addressing transformations occurring all around them.

In February, US President Obama and the European Union announced negotiations to develop a Transatlantic Trade and Investment Partnership (TTIP) to deepen commercial links between the US and EU. This has enormous promise, but the barriers to success are formidable. This paper outlines the huge benefits on offer from such a partnership, as well as the essential features it must have to realize them.

To win the moment, transatlantic leaders must forge a partnership that is more strategic, dynamic and holistic than a traditional Free Trade Agreement. TTIP must harness four distinctive elements of the U.S.-EU relationship.

First, despite the rise of other powers the U.S. and Europe remain the fulcrum of the world economy, each other's most important and profitable market and source of onshored jobs, each other's most important strategic partner, and still a potent force in the multilateral system—when they work in concert. The transatlantic economy generates $5.3 trillion in total commercial sales a year and employs up to 15 million workers. It is the largest and wealthiest market in the world, accounting for three-quarters of global financial markets and over half of world trade. No other commercial artery is as integrated.

Second, the dynamic interaction between investment and trade distinguishes the transatlantic economy from all others. Only by adding trade and investment together does one understand the true size and dynamism of the transatlantic economy, particularly compared to any other bilateral economic relationship either partner has in the world. Transatlantic trade barriers are relatively low; a 'trade-only' approach would be myopic and squander opportunities to generate jobs and growth that could come from removing remaining barriers to mutual investment.

Third, given the relatively open U.S.-EU trading relationship and the importance of mutual investment, the most important hurdles to greater transatlantic commerce are “behind the border” regulatory differences rather than “at the border” trade barriers. TTIP must identify “essentially equivalent” regulations for mutual recognition and promote “upstream” regulatory cooperation for new technologies.

Fourth, services are the sleeping giant of the transatlantic economy. Most American and European jobs are in the services economy, which accounts for over 70% of U.S. and EU GDP. 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. Deep transatlantic connections in services

industries, powered by mutual investment flows, are also the foundation for the global competitiveness of U.S. and European services companies. Yet protected services sectors on both sides of the Atlantic account for about 20% of combined U.S.-EU GDP – more than the protected agricultural and manufacturing sectors combined. Removing barriers in these sectors would be equivalent to 50 years' worth of GATT and WTO liberalization of trade in goods. Opening the transatlantic services market could also trigger plurilateral negotiations to include other partners.

The U.S. and EU should harness these distinctive elements of their relationship to advance an ambitious Transatlantic Trade and Investment Partnership with a three-fold agenda.

First, commit to open and renew the Transatlantic Market -- not by limiting U.S.-EU ambition to yet another preferential "free trade agreement," but by forging a more ambitious and relevant new-generation agreement, rooted in the distinctive nature and potential of the Transatlantic Partnership. Such an agreement would be grounded in essential principles of WTO-consistency, transparency, non-discrimination and essential equivalence. It would be framed as an 'open architecture', accessible to others committed to similar goals and ground rules. It would identify coordinated strategies across 8 mutually supporting areas: eliminating all transatlantic duties on traded industrial and agricultural products; liberalizing services; removing restrictions on job-creating investments; overcoming regulatory obstacles; boosting innovation; leading the energy revolution; creating a more efficient transatlantic financial market; and encouraging the freer flow of people and talent across the transatlantic space.

Second, reposition the Transatlantic Partnership with regard to third countries to open markets and strengthen the ground rules of the international economic order. Efforts to open transatlantic markets and lift and align transatlantic standards can drive broader international cooperation. Given the size and scope of the transatlantic economy, standards negotiated by the U.S. and EU can become the benchmark for global models, reducing the likelihood that others will impose more stringent, protectionist requirements for either products or services. Mutual recognition of essentially equivalent norms and regulatory coherence across the transatlantic space, in areas ranging from consumer safety and intellectual property to investment policy and labor mobility, not only promise to improve the lives of our people but form the core of broader international norms and standards.

Third, use U.S.-EU partnership to extend the rules-based multilateral system to new areas and new members. Transatlantic market-opening initiatives in trade, green technologies, and services could be extended to WTO members who are willing to take up the same responsibilities and obligations covered by such agreements. The U.S. and the EU should also codify and align their existing free trade agreements to boost the multilateral system. An alignment and extension of free-trade arrangements among the U.S., EU and all partners with whom they have such free-trade agreements would be a major boost to the global trading order. The 'multilateral vs. transatlantic' dichotomy is a false choice. The U.S. and EU should advance on both fronts simultaneously; push multilateral liberalization and pioneer transatlantic market-opening

initiatives in areas not yet covered by multilateral agreements. The alternative to this WTO+ agenda is not drift; it is growing protectionism, U.S.-EU rivalry in third markets, and the triumph of lowest-common-denominator standards for the health and safety of our people.

There should be no illusions about the difficulties involved in advancing this agenda. The potential payoff is high, however, and will translate into jobs and economic opportunity not only for Americans and Europeans but for billions around the world. The U.S.-EU relationship remains the foundation of the global economy and the essential underpinning of a strong rules-based international economic order. Americans and Europeans literally cannot afford to neglect it. Instead, they need to put their partnership to work – to open transatlantic markets; strengthen global rules; leverage global growth, human talent and innovation; and expand economic opportunity to billions of people around the world.

Forging a Transatlantic Partnership for the 21st Century

The world that created the transatlantic alliance is fading fast. If the U.S.-European relationship is to be a progressive force in the world to come, Americans and Europeans must urgently build a more strategic Transatlantic Partnership that is more effective in generating economic opportunity for their citizens and companies; in dealing with new partners, especially in the emerging growth markets; and addressing transformations occurring all around them. Shifting dynamics at home and abroad compel them, urgently, to renew and reposition their partnership to generate jobs and growth and to improve the strategic and tactical tools at their disposal to meet 21st century challenges to the international trading system, the World Trade Organization (WTO), and its rules.

It is not a time for piecemeal efforts, it is a time for transformative action. The benefits could be substantial in terms of creating jobs, boosting innovation, improving competitiveness, and ensuring long-term growth and prosperity. It is a moment of opportunity for the U.S. and Europe – to use or to lose.

To win the moment, transatlantic leaders must unite to advance a shared vision, built on underlying values, to harness the potential of the transatlantic partnership to create jobs, stimulate growth, and strengthen the multilateral system. President Obama and EU leaders, in their announcement of negotiations in February and subsequently, have declared their willingness to consider together the full range of trade and investment measures that could be taken to intensify the strong economic relationship, spur job creation and expand trade and investment. Absent a clear and compelling vision of the transatlantic partnership, however, the effort currently underway risks becoming yet another failed bureaucratic exercise.

The renewal and further opening of the Transatlantic Market is important, and serious efforts should be undertaken to that end. It promises to generate millions of new jobs on both sides of the Atlantic. But a 21st Century Transatlantic Partnership must be more strategic, dynamic and holistic. Efforts to open transatlantic markets must be tied to joint efforts to leverage global growth, innovation and talent, strengthen the ground rules of the international economic order, and extend the benefits of open markets to billions around the world.

Why a Transatlantic Trade and Investment Partnership, and Why Now?

The past few years have been difficult for the transatlantic economy. The financial crisis, the eurozone's sovereign debt crisis, and sluggish U.S. economic conditions weakened transatlantic cross-border trade and investment flows, and both variables are likely to remain soft over the near term. That said, the current downturn is cyclical in nature. On a day-to-day basis,

transatlantic investment and trade remain significant and continue to fortify the links that bind the U.S. and Europe together.

In fact, it is important to keep in mind that despite the rise of other powers, including the emerging growth markets, the U.S. and Europe remain the fulcrum of the world economy, each other's most important and profitable market and source of onshored jobs, each other's most important strategic partner, and still a potent force in the multilateral system—when they work in concert.

The transatlantic economy generates $5.3 trillion in total commercial sales a year and employs up to 15 million workers. It is the largest and wealthiest market in the world, accounting for three-quarters of global financial markets and over half of world trade. It accounts for over 50% of world GDP in terms of value and 41% in terms of purchasing power. 91.3% of global foreign exchange holdings are either in dollars (61.7%), euros (25.7%) or sterling (3.9%).[1]

No other commercial artery is as integrated. Every day roughly $1.7 billion in goods and services crosses the Atlantic, representing about one-third of total global trade in goods and more than 40 percent of world trade in services. Americans sold three times as many merchandise exports to Europe than to China and 15 times more than to India. The European Union sold the United States nearly twice the goods it sold China and nearly 7 times what it sold India.

Nonetheless, as globalization proceeds and emerging markets rise, transatlantic markets are shifting from a position of preeminence to one of predominance – still considerable, but less overwhelming than in the past. In the last decade the transatlantic share in global stock market capitalization declined from 78% to just over 50%. Its share in stock trading fell from 86% to just over 70%. Asia's share of investment banking revenues rose from 13% to more than 20%. Stock markets in Brazil, Russia, India and China (BRIC) grew more than 40% per year while EU and U.S. markets contracted. Efforts to open markets across the Atlantic, therefore, must also be coupled with transatlantic efforts to open markets around the world.

When one considers the possible ways in which greater transatlantic cooperation can create jobs and boost growth, it is important to keep in mind that whereas U.S. commercial ties with Asia and the Pacific are driven by trade, U.S. commercial ties with Europe are driven by investment. Foreign investment—the deepest form of global integration—binds the transatlantic economy together far more than trade. The latter, the cross-border movement of goods and services, is a shallow form of integration and often associated with the early phases or stages of bilateral commerce. In contrast, a relationship that rests on the foundation of foreign investment is one in which both parties are extensively embedded and entrenched in each other's economies. Such a relationship is more job-creating, income-producing, and wealth-generating for both parties than one based solely on trade. The transatlantic economy epitomizes this type of economic integration.

The United States and the European Union are each other's most important investment partners. Transatlantic investments have combined annual sales exceeding $4 trillion, which dwarfs any other bilateral trade or trade/investment relationship in the world.

Investment from Europe accounts for 71% of total foreign direct investment stock in the United States. EU investment in the U.S. is 27 times the level of EU investment in China and more than 55 times the level of EU investment in India. There is more European investment in a single U.S. state such as Indiana or Georgia than all U.S. investment in China, Japan and India combined. The U.S. also remains the most important market in the world in terms of earnings for many European multinationals. Despite continued U.S. economic difficulties, profits of European foreign affiliates in the U.S. reached a record high of $117 billion in 2012.

Investment flows are also strong from the U.S. to Europe. Despite the rise of other markets, Europe continues to account for 56% of U.S. foreign direct investment. While U.S. investment in the BRICs combined is rising slowly, U.S. companies invested four times more in the Netherlands alone and 14 times more in Europe than the BRICS. U.S. investment in Ireland over the 2000-Q3 2012 was more than six times larger than U.S. investment in China. U.S. investment in the Netherlands was more than 14 times larger and in the UK more than 11 times larger. Since 2000, U.S. firms have invested more in the Netherlands ($442 billion) alone and in the UK ($356 billion) alone than in South and Central America, the Middle East, and Africa combined ($308 billion). U.S. cumulative investment in Brazil since 2000 ($43.8 billion) is roughly 80% of total investment in Belgium and one-fifth total U.S. investment in Ireland. On a historic-cost basis, the U.S. investment position in Europe was nearly 4 times larger than in all of Asia at the end of 2011. Europe remains the most profitable region of the world for U.S. companies. Even though many European economies continue to struggle, U.S. foreign affiliate income earned in Europe rose to an estimated $214 billion in 2011 – a record high.

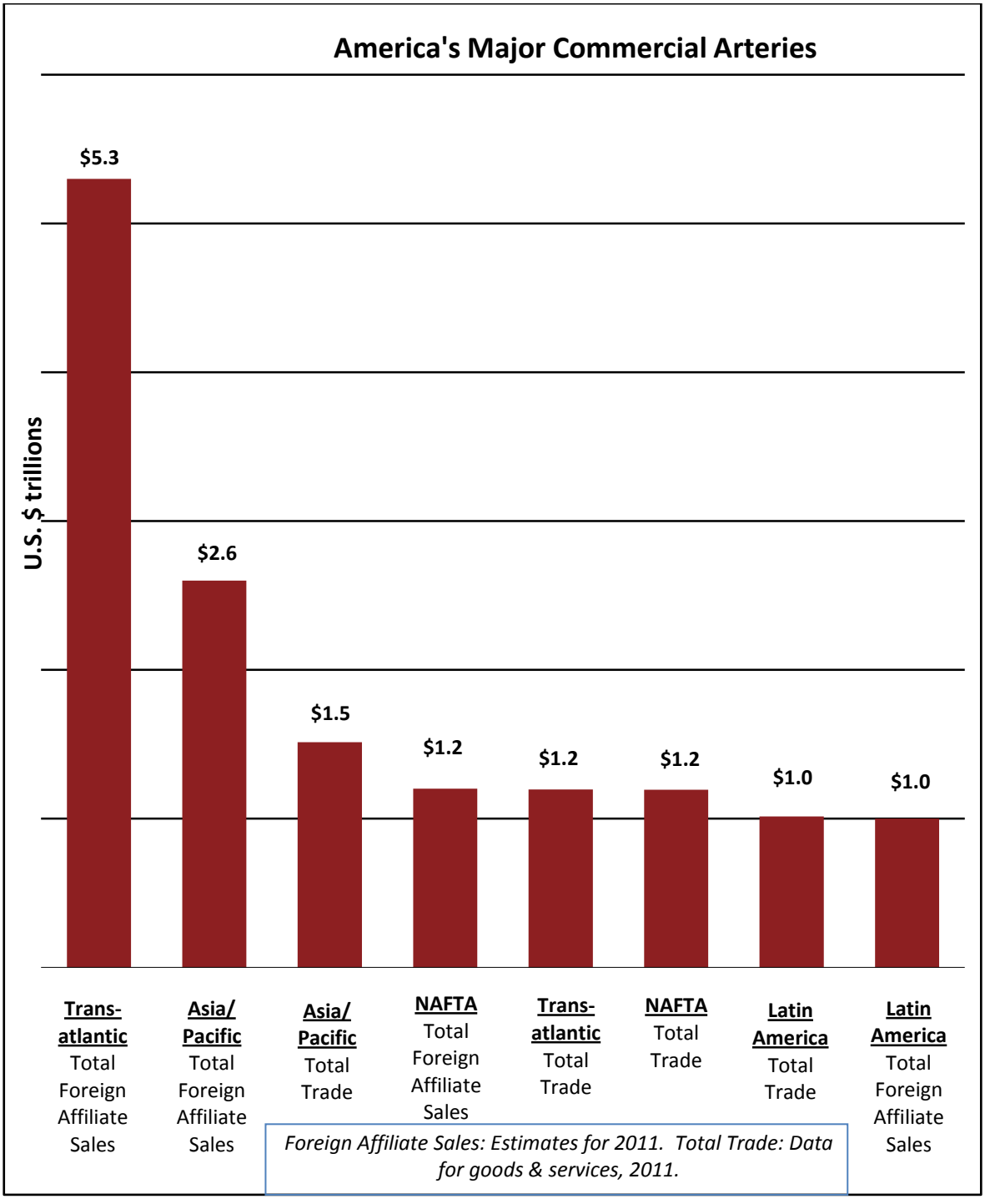
I do not mean to downplay the importance of transatlantic trade, which remains considerable. Indeed, transatlantic trade (defined here as U.S. exports plus imports of goods from the European Union) totalled an estimated $650 billion in 2012 up 68% from $387 billion at the start of the new century. In 2011 U.S. exports of goods to the European Union clawed back more gains after plunging in recession year 2009. US merchandise exports to Europe softened in 2012, however, as Europe’s economic engine continued to sputter.

Nonetheless, any analysis that focuses on trade alone as a benchmark for commerce is very misleading. Only if one adds trade and investment together does one understand the true size and dynamism of the transatlantic economy, particularly compared to any other bilateral economic relationship either partner has in the world.

Moreover, these companies and affiliates invest in local communities. European affiliates in the United States employ millions of American workers, employ more Americans than any other foreign nationality, and are the largest source of onshored jobs in America. Similarly, U.S.

corporate affiliates in Europe employ millions of European workers and are the largest source of onshored jobs in Britain, Ireland and across the continent.

In addition, bilateral U.S.-EU flows in research, development and innovation are the most intense between any two international partners, and U.S. and European companies account for the bulk of top global R&D companies and private R&D spending. The U.S. and Europe are allies in NATO, partners in addressing global political and economic problems, and account for 80% of all development assistance around the world. They are democracies, market economies, and leading supporters of the rules-based international economic order.



Source: Bureau of Economic Analysis

In short, Americans and Europeans have never had a greater stake in each other's economic success. Recent economic troubles have only underscored the deep integration of the transatlantic economy and the importance of healthy transatlantic economic ties for millions of

U.S. and European workers, consumers and companies. European and American companies are deeply engaged on both sides of the Atlantic; they are literally in each other's business.

The notion that Europeans or Americans can “decouple” from each other's economic fortunes is mistaken and can lead to serious policy errors. The North Atlantic economic and financial crisis compels both sides to develop an integrated transatlantic strategy to bring debt and deficits back to sustainable levels, to meet the budgetary challenges of demographic change, and ensure sufficient room for fiscal manoeuver in the future. Substantial gains in terms of jobs and growth would result from initiatives designed to boost flows of goods, services, capital and knowledge between the U.S. and the EU.

Strengthening transatlantic bonds is important not only in terms of how Europeans and Americans relate to each other, but how they can harness the potential of the transatlantic partnership to open markets and strengthen the international economic order. A central question is how the transatlantic partners together might best relate to rising powers, especially the emerging growth markets. Whether those rising powers choose to challenge the current international economic order and its rules or promote themselves within it depends significantly on how the U.S. and Europe engage, not only with them but also with each other. In fact, the stronger the bonds among core democratic market economies, the better their chances of being able to include rising partners as responsible stakeholders in the international trading system. The more united, integrated, interconnected and dynamic the international liberal economic order is – shaped in large part by the U.S. and Europe – the greater the likelihood that emerging powers will rise within this order and adhere to its rules. The looser or weaker those bonds are, the greater the likelihood that rising powers will challenge this order. So a key element of strategy in a G20/WTO world must be to protect and reinforce the institutional foundations of the liberal international economic order, beginning with the partnership between the U.S. and Europe. This means not only refraining from imposing such national protectionist measures as trade tariffs, export subsidies or buy national policies, but coordinating efforts to ensure global high standards that can lift the lives of their own people and create economic opportunity for billions of others around the globe.[2]

In this turbulent time, a key test whether the U.S.-EU partnership can work for their own people is whether they can work with other key actors to restructure the world economy. There is still no substitute for transatlantic leadership, but in a G20 world this must be of a different kind – a more nuanced role that works to preserve the principles that have guided the remarkable global growth of the last few decades, addresses risky behaviors, and engages emerging economies as responsible stakeholders. The transatlantic partners must resist those who see protectionism as the best way to safeguard national prosperity. They must take the lead in keeping the global economy open, starting by reducing the remaining barriers and obstacles between their own economic spaces, and inviting others to join. They must also be pathfinders to new forms of global economic governance that recognize the rights and responsibilities of the emerging economies while strengthening a rules-based, open-market global economy.

Harnessing Transatlantic Potential

Despite its strength and potential, the U.S.-EU relationship punches below its weight and fails to capitalize on significant opportunities for American and European citizens, companies, workers, consumers and the multilateral system they helped bring to life. Neither the framework for their relationship – which in many respects remains rooted in Cold War/Bretton Woods structures – nor the way their governments interact adequately address these new realities. The U.S.-EU relationship is widely perceived as a largely technocratic exercise, a grab bag of issues addressed in rather ad hoc fashion by a disparate range of institutions, with little sense of urgency or overall strategic direction. It fails to fire the political, business or popular imagination.

The transatlantic partnership is simply too important to be allowed to drift. A veritable cottage industry of disparate proposals to improve transatlantic economic relations has developed in past years, but most have been highly technical or have been limited to old-style free trade agreements, thus neglecting the changing nature of challenges or, for instance, the fact that the transatlantic commercial relationship is driven more by investment than by trade. None has defined a strategic agenda geared to 21st century challenges that not only makes economic sense but can also win political support on both sides of the Atlantic. Important constituencies on each side of the Atlantic have started to talk about a new approach, but have failed to coalesce around a coherent and comprehensive initiative.

Now is the time for such an initiative. Eighteen years ago Washington and Brussels ushered in a new era of U.S.-EU cooperation with the New Transatlantic Agenda. Now it is time for Europeans and Americans to take the next step and forge a more strategic 21st Century Transatlantic Partnership that not only can respond effectively to the tremendous changes all around them, but can anticipate and shape those changes to lift the lives of their people. This Transatlantic Partnership should advance an agenda for jobs and growth that opens transatlantic markets while simultaneously driving international cooperation to open global markets. Mobilizing political and economic leadership is the primary challenge. That will only happen if there is a shared vision of a vibrant, future-oriented partnership, built on common values, together with a roadmap to getting there.

This vision must encompass a three-fold agenda.[3]

First, they must renew and open the Transatlantic Market.

Second, they must reposition our partnership so they can better engage with third countries on the economic ground rules underpinning the multilateral system.

Third, they must strengthen and extend the rules-based multilateral system to include new members and new areas of commercial opportunity.

Creating Millions of New Jobs in an Open Transatlantic Market

The future health of the transatlantic economy is not only dependent on the cyclical economic rebound. It also rests on more proactive, coordinated and forward-looking policy initiatives from policymakers on both sides of the Atlantic. Current economic challenges are urgent. But history will judge not only how leaders deal with short-term crises, but how they position their countries for the future.

Transatlantic leaders should make job creation and economic growth the centerpiece of transatlantic cooperation by establishing the goal of creating 10 million jobs in a Transatlantic Market by 2020, and charting a roadmap with benchmarks toward that end. The negotiations should begin by identifying immediate initiatives that the U.S. and the EU can take, in concert or in parallel, to spark job creation and spur growth. The goal of a Transatlantic Market by 2020, as reflected in the Transatlantic Trade and Investment Partnership, or TTIP, would not be yet another preferential "free trade agreement;" it would be a more ambitious and relevant new-generation agreement, rooted in the distinctive nature and potential of the Transatlantic Partnership. It would be grounded in essential principles of WTO-consistency, transparency, nondiscrimination and essential equivalence. It would be framed as an 'open architecture', accessible to others committed to similar goals and ground rules. It would identify coordinated strategies across 8 mutually supporting areas: reducing transatlantic tariff barriers; liberalizing services; removing restrictions on job-creating investments; overcoming regulatory obstacles; boosting innovation; leading the energy revolution; creating a more efficient transatlantic financial market; and encouraging the freer flow of people and talent across the transatlantic space.

An ambitious transatlantic effort of this type should also not be limited to a ‘single undertaking’ or traditional trade negotiation, whereby nothing is really agreed until all issues are agreed. The U.S. and EU should instead forge and implement agreements wherever possible, without allowing contentious issues to block areas of agreement. Too many past attempts to open the transatlantic market have failed because of these issues. At the same time, the framework needs to recognize that the U.S. and EU economies are so integrated that many of the remaining barriers and distortions are deeply embedded in their respective legal, policy and political structures, and their resolution may not necessarily fit effectively into the negotiating structure of a transatlantic agreement. Such issues should not be allowed to deadlock agreement where agreement is possible. Instead, mechanisms such as the Transatlantic Economic Council should be used to engage regulators, legislators and other stakeholders in areas that will require more extensive work.[4]

This first track of an ambitious Transatlantic Partnership should move forward in multiple areas:

Open Transatlantic Trade

- ***Commit to work jointly towards a tariff-only Free Trade Agreement, eliminating all duties on traded industrial and agricultural products.*** Given that most transatlantic tariffs are low (around 1-4 per cent), a focused tariff-only free trade agreement could be achieved relatively quickly and would have immediately beneficial effects on investment, profits and jobs, since a substantial portion of U.S.-EU trade is intra-firm, i.e. companies trading intermediate parts and components among their subsidiaries on both sides of the Atlantic. Tariffs on agriculture have always been the major problem, but with agricultural trade growing across the Atlantic, now may be the time to take a bold step forward. Where agricultural tariffs are high, phase-out periods could be longer. Moreover, European and American agricultural sectors would still remain implicitly protected by a range of non-tariff barriers that are far more important, lessening the political concerns that might accompany a complete liberalization. Finally, such an initiative could spur the stalled Doha Round trade talks by demonstrating that the U.S. and EU are willing to move ahead with serious trade liberalization.[5]

  Once such a deal is negotiated, the U.S. and EU should invite others to join in certain sectors or in the overall arrangement. If a critical mass of participants develops, benefits should be extended to all WTO members on a most-favored-nation basis. This plurilateral approach was successful in negotiations leading to the 1997 International Telecommunications Agreement.

- ***Agree on a Transatlantic Trade Facilitation Agreement.*** The ability of European and American companies to deliver goods and services on time and at low cost is an essential element of their competitiveness. Trade-related transaction costs impair their efforts, however, and have spurred multilateral efforts to build down such barriers and to facilitate trade. Multilateral negotiations on trade facilitation are bogged down, however, even though the U.S. and the EU essentially agree on the basic elements and principles behind good trade facilitation practice. The transatlantic partners should lead in this area by implementing a transatlantic trade facilitation agreement and opening it to others within the context of the WTO. A transatlantic agreement could save both economies considerably in terms of costs of time and transportation. As important, such an agreement could offer the basis for plurilateral and ultimately multilateral standards, norms and procedures.

Open the Transatlantic Services Market

Services represent the sleeping giant of the transatlantic economy. Most American and European jobs are in the services economy, which accounts for over 70% of U.S. and EU GDP. 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.[6] The services economies of the United States and Europe have never been as intertwined as they are today in financial services, telecommunications,

utilities, insurance, advertising, computer services, and other related activities. U.S. service exports to the European Union more than doubled between 2001 and 2011, rising from around $102 billion to $225 billion.[7] The U.S. enjoyed a $62billion trade surplus in services with Europe in 2011, compared with its $118 billion trade deficit in goods with Europe. Beyond trade, there are the foreign affiliate sales of services, or the delivery of transatlantic services by U.S. and European foreign affiliates. Sales of affiliates have exploded on both sides of the Atlantic over the past decade; indeed, affiliate sales of services have not only supplemented trade in services but also become the overwhelming mode of delivery in a rather short period of time: affiliate sales of U.S. services rose more than 10-fold between 1990 and 2010, topping $1 trillion for the first time in 2007. In the same year, U.S. services exports were roughly half the level of affiliate sales of services.

Deep transatlantic connections in services industries, provided by mutual investment flows, are not only important in their own right; they are also the foundation for the global competitiveness of U.S. and European services companies. A good share of U.S. services exports to the world are generated by European companies based in the U.S., just as a good share of EU services exports to the world are generated by U.S. companies based in Europe.

Yet protected services sectors on both sides of the Atlantic account for about 20% of combined U.S.-EU GDP – more than the protected agricultural and manufacturing sectors combined. Major services sectors such as electricity, transport, distribution and business services suffer from particularly high levels of protection. A targeted opening of services could present vast opportunities to firms and huge gains to consumers in both the EU and the United States. Removing barriers in these sectors would be equivalent to 50 years' worth of GATT and WTO liberalization of trade in goods.[8] An initial transatlantic initiative can be a building block for more global arrangements. Such negotiations are likely to trigger plurilateral negotiations to include other partners.

Initiate a Transatlantic Smart Visa Program. A services agreement should also include a Transatlantic Smart Visa Program. U.S.-EU economic growth depends on the safe yet open movement of goods and services. In this regard the November 2011 U.S.-EU agreement on secure trade represents progress. But transatlantic commerce also depends on the fastest and freest movement of people possible, with due respect to the security arrangements required to keep people safe. As intertwined as the European and American economies are now, they cannot achieve a transatlantic market without expanding and improving the transatlantic mobility of their people.

***Create a more efficient transatlantic financial market*.** The U.S. and EU must ensure that their capital markets are transmission belts for growth, not contagion, and that the practices that led to recent economic turmoil do not recur. Failure to ensure financial transparency, accountability and ease of capital mobility will undermine prospects for jobs and growth.

- *Develop financial sector rules with similar "essentially equivalent" approaches to risk assessment and regulation*. Encourage greater U.S.-EU alignment in financial regulation, with a near-term focus on financial market regulation.

- *Prepare a detailed work program on transatlantic financial market integration*, beginning with a joint comprehensive screening of regulations, identification of priorities, development of a roadmap and a detailed work plan. There is a need for effective new regulation to avoid excessive risk taking with financial instruments, but without a clear commitment to seek transatlantic alignment, the net effect of these efforts may be to create fragmentation and reduce liquidity that is needed to fund investment in innovation. The U.S.-EU Financial Markets Regulatory Dialogue can ensure that the implementation of U.S. and EU roadmaps for regulatory reform and G20 commitments at the domestic level are compatible and as convergent as possible and anchored in the global financial system.

Vigorously Promote Transatlantic Investment

The dynamic interaction between investment and trade distinguishes the transatlantic economy from all others. Foreign investment and affiliate sales power transatlantic commerce and provide millions of jobs on both sides of the Atlantic. Affiliate sales on either side of the Atlantic are double comparable sales in the entire Asia/Pacific. Tackling investment barriers can spur greater transatlantic investment, thus creating jobs and spurring growth. An agreement on investment should be structured around the elimination of bilateral investment barriers, alignment of bilateral investment competences, and common approaches to restrictions on investment in third countries. Ownership restrictions in a range of economic sectors, from marine shipping to infrastructure, should be removed. In situations where national security considerations might apply, there should be an appropriate review process. The benefits could be substantial. For instance, estimates of the potential benefits from removing regulatory obstacles to the U.S.-EU aviation market include up to 80,000 new jobs; the benefits to the U.S. and European economies of such an agreement in this one sector alone could rival that of the entire Doha Round of multilateral trade negotiations.[9]

Boost Bilateral Regulatory Cooperation

Adopt a goal to eliminate unnecessary regulatory differences by 2020. Regulatory coherence is central to the goal of achieving a Transatlantic Market by 2020. Given the relatively open U.S.-EU trading relationship and the importance of mutual investment, the most important hurdles to greater transatlantic commerce are "behind the border" regulatory differences rather than "at the border" trade barriers. The transatlantic partners should seek to address these differences with far greater urgency and attention. U.S. and EU regulators generally have the same high standards for protecting the welfare of their consumers, the environment and the health and safety of their citizens. A detailed study of 3,000 risk-reducing regulatory decisions in the U.S. and

EU shows that overall risk stringency is about the same; divergences stem largely from protectionism. The U.S. and EU have agreed to take steps that could lead toward greater regulatory compatibility and that could promote economic integration.[10] This should include a process that allows regulators to determine if there is substantial equivalence in regulatory approach and, if so, to let them work with legislators to recognize this. As first steps, the U.S. and EU have identified key sectors, including labeling, energy efficiency, and nanotechnology, where both sides will seek to develop compatible approaches to regulation. They have also opened two joint testing laboratories to encourage closer regulatory coherence among research and testing bodies. These initiatives should be implemented with considerable vigor, but both partners should go even further:

- ***Identify "essentially equivalent" regulations for mutual recognition.*** If agreement can be reached that both sides are seeking "essentially equivalent" outcomes in terms of health, safety, and consumer welfare in individual regulated sectors (toys, engines, automobiles, electrical products, etc.), then the legislative process on both sides should accept the regulatory decisions and standards of the other side. The process for reaching this decision should be in the hands of U.S. and EU regulators, who would always have the right to withdraw the automatic approval for products approved by the other.

- ***Ensure that regulatory agencies have the resources and incentives to cooperate internationally.*** Financial resources must be available that allow regulators to engage in sustained, face-to-face dialogue with international partners. Such resources should be earmarked for international regulatory cooperation, and not compete with the regulating agencies' core mandates for budget and staff resources. Such financial resources will have a direct impact on the ability of U.S. and European agencies to better learn from each other.

- ***Undertake Transatlantic Regulatory Impact Assessments*** by corresponding regulatory agencies on significant and pending product safety regulations in sectors with major impact on the U.S.-EU economic relationship.

- ***Promote "upstream" regulatory cooperation for new technologies***. When considering new types of legislation or regulation, regulators and legislators on both sides of the Atlantic should be consulting in advance. RFID, nanotechnology, internet/broadband, and "green" technologies are four priority areas for attention.

Boost the Transatlantic Innovation Economy

Bilateral U.S.-EU flows in research, development and innovation are the most intense between any two international partners, and essential to such leading-edge sectors as semiconductors, biotechnology and nanotechnology, which in turn have the potential to deliver hugely significant economic benefits across the entire economy, just as electricity, computers and mobile phones have done in the past. In today's highly competitive and connected global economy, the

prosperity of Americans and Europeans alike depends on continued high levels of innovation in our respective societies as well as on the strength of our knowledge links to each other and to other global hubs of innovation and ideas.[11] To remain competitive, the U.S. and EU must work, in concert and in parallel, to support and accelerate innovation, setting examples for others to follow.

- ***Issue a Joint Statement of Innovation Principles*** to guide the transatlantic innovation economy and serve as the basis for globally focused cooperation. Such a statement should result from close consultation with business and other stakeholders.
- ***Use the U.S.-EU Innovation Dialogue*** to accelerate efforts to spur growth, productivity and entrepreneurial activity, including by sharing best policy practices and ways of improving the policy environment for innovative activities in both markets.
- ***Advance a Transatlantic Digital Agenda:*** The transatlantic partners are each advancing policy agendas intended to exploit the transformational power of digital tools and technologies. The EU, for instance, is focused on the creation of a "digital single market." Wherever possible, these efforts should be aligned with a full focus on digital market access and participation across the Atlantic (and beyond), notably in the areas of intellectual property, consumer protection, data privacy, network access, network security and internet governance, and standards (for example, for e-health).

Lead the Energy Revolution

Europe and North America can – and must – play a key role in breaking the link between the generation of wealth and the consumption of resources.[12] Rapidly rising economies have based their future growth on extensive use of oil and gas, as well as other resources. This is untenable for a global economy of more than 7 billion people. Breaking this link is an historic challenge – but also an opportunity to move toward entirely different patterns of consumption and competitiveness that can sustain our prosperity and create high-skilled jobs. Technological innovation, the robust use of cleaner energy sources, more energy-efficient production processes, and the broad deployment of a range of other innovative clean technologies are critical. Transatlantic cooperation and innovation can lead the way.

- ***Eliminate tariffs and other barriers to transatlantic trade and investment in environmental goods and services.*** Studies by the World Bank and others confirm that the non-discriminatory elimination of tariffs and non-tariff trade barriers on significantly cleaner and more energy efficient technologies and services could play a key role in achieving both environmental goals and further economic growth. The transatlantic partners should initiate immediately negotiations to liberalize and, if possible, eliminate fully tariffs and other barriers to trade in environmental goods and services, based on an agreed non-discriminatory list of products that contribute to energy efficiency or provide direct benefit to the environment and do not require end-use certification. U.S.-EU

negotiations should be conducted in the context of a WTO sectoral agreement on a plurilateral basis, and open to others who express interest in achieving these goals. Once such a deal is negotiated, the parties should invite other WTO members to join on a most-favored-nation basis. This effort could be modeled on the 1997 Information Technology Agreement, which eliminated all tariffs on electronics products, once an accord was reached among the countries that accounted for substantially all world trade in that sector.

Strengthen the Ground Rules of the International Economic Order

The renewal and further opening of the Transatlantic Market goes hand in hand with a second and related agenda: to strengthen the ground rules of the international economic order by repositioning the Transatlantic Partnership with regard to third countries. Efforts to open transatlantic markets and lift and align transatlantic standards can drive broader international cooperation.

This is an opportune moment for such an agenda. The multilateral system administered by the WTO is under challenge, especially by emerging growth markets which have benefited substantially from the system, A number of rapidly developing countries do not share the core principles or basic structures that underpin open rules-based commerce, and are now showing no real interest in new market opening initiatives. As a result, the global economy is drifting dangerously towards the use of national discriminatory trade, regulatory and investment practices.

In this regard, the U.S. and the EU must invest in new forms of transatlantic collaboration that strengthen multilateral rules and lift international standards. Given the size and scope of the transatlantic economy, standards negotiated by the U.S. and EU can quickly become the benchmark for global models, reducing the likelihood that others will impose more stringent, protectionist requirements for either products or services. Mutual recognition of essentially equivalent norms and regulatory coherence across the transatlantic space, in areas ranging from consumer safety and intellectual property to investment policy and labor mobility, not only promise to lift the lives of their people but form the core of broader international norms and standards.

The goal is not to build an Atlantic Fortress, but instead to pave the way for sustainable economic growth in the global marketplace. Europeans and Americans certainly share an interest in extending prosperity through multilateral trade liberalization. But even a successful Doha agreement will not address cutting-edge issues raised by European and American scientists and entrepreneurs who are pushing the frontiers of human discovery. Because of this, Europeans and Americans should forge ahead, identifying points of agreement on norms and standards where

they can, and using such agreement to engage third countries. Their chief goal should in fact be to make the other "Gs" and broader institutions work much more effectively, by seeking general agreement on goals and purpose before engaging the larger fora, thus supplementing rather than supplanting these other bodies.

With this in mind, the U.S. and EU should:

Promote Basic Standards Regarding Investment

- ***Agree on a U.S.-EU Investment Treaty.*** The United States has investment treaties with most of the EU's 27 member states, but has no agreement with the EU itself. Yet in the 2009 Treaty of Lisbon EU member states relinquished to the European Commission their authority to negotiate investment treaties, rendering legally questionable all bilateral agreements concluded by member states.[13] A U.S.-EU Investment Treaty could ensure mutual openness to foreign investment, open new areas to mutually beneficial investment, strengthen international investment law, and serve as a model for investment agreements worldwide.

- ***Remove remaining barriers to mutual investment***. Ownership restrictions in a range of economic sectors, from marine shipping to infrastructure, should be removed. In situations where national security considerations might apply, there should be an appropriate review process. CFIUS, in the United States, has no EU equivalent, although several member states do have similar processes. Although implementation is likely to remain with national authorities, the U.S. and EU, together with EU member states, should develop guidelines for allowing foreign investment to flourish with reasonable national security safeguards. In time, such guidelines might become a global standard as other countries grapple with the balance between prosperity and security.

- ***Reinvigorate the Transatlantic Investment Dialogue*** and charge it with coordinating U.S. and the EU positions regarding sovereign wealth funds in light of OECD and IMF principles; investment policies vis-à-vis third countries; and implementation of OECD guidelines on freedom of investment.

Stand Together for Intellectual Property Rights (IPR)

The U.S. and the EU face a major challenge in addressing calls from those who do not have a shared understanding of the concept of intellectual property – a fundamental pillar of the transatlantic economy. The U.S. and the EU have agreed to cooperate in strengthening global protection of intellectual property rights, including through the provision of training and technical assistance to other countries, and to support an expanded mandate for the existing U.S.-EU IPR Joint Strategy Committee. According to Business Europe, a convergence of IPR regulations between the EU and the U.S. is estimated to generate an increase in national incomes by €0.8 billion ($1.1 billion) in the EU and $4.8 billion (€3.7 billion) in the U.S.

Given the stakes involved in anti-counterfeiting and piracy, the U.S. and EU, along with the private sector, should continue to press for full respect for IPR in third countries. Through international organizations and directly, the U.S. and EU should

- Engage developing countries in formulating intellectual property policies and enforcement strategies that ensure “win-win” outcomes both for IPR holders and national interests.
- Develop a joint agenda for dealing with counterfeiting and piracy around the world and bring joint legal action against such abuses at the World Trade Organization.
- Adopt a common stance on issues of 'indigenous innovation.'
- Intensify collaboration on critical market access issues to apply to all emerging economies.

Jointly Develop an ICT Roadmap

The U.S. and EU should set forth out how jointly agreed ICT principles will be implemented and drive the development and adoption of transparent and high-quality international rules, norms and best practices on cross-border flows of digital data and technologies.

Issue a Joint Statement of Innovation Principles

to guide the transatlantic innovation economy and serve as the basis for globally focused cooperation on investment, IPR, indigenous innovation policy, state owned enterprise behavior, ICT, raw materials and the adoption by key emerging economies of policies that are supportive of balanced and sustainable global economic growth. Such a statement should result from close consultation with business and other stakeholders.

Extend the Rules-Based Multilateral System to New Areas

Commercial barriers must come down not only across the Atlantic. The U.S. and EU should remain committed to the multilateral trade liberalization agenda under the auspices of the WTO. Yet we should also explore opportunities that give us more viable options than moving the global economy ahead in lockstep or not at all. I have proposed transatlantic market-opening initiatives in trade, green technologies and services that could be extended to WTO members who are willing to take up the same responsibilities and obligations covered by such agreements. In addition, the U.S. and the EU should work together and with other like-minded partners to extend the rules-based multilateral system to new areas of endeavor.

Most new cooperative economic arrangements today address issues beyond traditional 'at the border' barriers to trade in goods and services as originally formulated by the GATT. New guidelines are needed to apply such fundamental WTO principles as transparency, non-

discrimination and national treatment to international economic transactions ranging far beyond the traditional trade agenda.

Those who worry that an ambitious Transatlantic Partnership could threaten the multilateral economic system should consider that the opposite may in fact be true. How the U.S. and Europe deal with the interrelated challenges and opportunities posed by bilateral issues, rising powers, and overlapping networks of free-trade-agreements could go far to shape the multilateral agenda for a new age and ultimately strengthen the multilateral system, especially the WTO.

In this sense, transatlantic markets have become the laboratory for the international economic order; many transatlantic issues cannot be addressed by multilateral efforts alone. That is why the 'multilateral vs. transatlantic' dichotomy is a false choice. The U.S. and EU should advance on both fronts simultaneously; push multilateral liberalization and pioneer transatlantic market-opening initiatives in areas not yet covered by multilateral agreements. The alternative to this WTO+ agenda is not drift; it is growing protectionism, U.S.-EU rivalry in third markets, and the triumph of lowest-common-denominator standards for the health and safety of our people. The absence of common rules and procedures weakens the leverage of our two regions to ensure that high standards prevail.

With this in mind, the U.S. and EU should:

Codify and Align Existing U.S. and EU Free Trade Agreements to Boost the Multilateral System

The U.S. is pursuing the Trans Pacific Partnership, while the EU is concluding a Comprehensive Economic and Trade Agreement with Canada, and may start negotiating a deal with Japan. The EU already has free trade agreements with Mexico and South Korea, and may start negotiating a deal with Japan. The United States already has free trade accords with Canada, Mexico and South Korea. In this growing web of economic integration, the glaring hole is a similar agreement between the U.S. and the EU. Such a comprehensive agreement would not only offer substantial benefits to workers, consumers and companies on both sides of the Atlantic. Such an agreement would also enable the U.S. and EU to codify their respective FTAs, which overlap considerably. An alignment and extension of free-trade arrangements among the U.S., EU and all partners with whom they have such free-trade agreements would be a major boost to the global trading order.

Facilitate Closer Economic Integration among Regional Initiatives

In addition to bilateral FTAs and related market-opening initiatives, regional groupings are also exploring ways to align more closely with each other, for instance APEC, the EU and NAFTA. The U.S. and EU should use their respective memberships in such arrangements to promote open regionalism by providing for mutual recognition of standards, sharing information and expertise to facilitate adoption of such standards based on principles of transparency and non-

discrimination, and opening such regional markets to each other. Cooperative arrangements that meet these criteria would embody an 'open architecture' fully consistent with the principle of open regionalism as well as with deepening, broadening and widening the scope of the WTO-based system of rules and disciplines for all international economic transactions.

Establish a Green Code of Multilateral Trade Disciplines

A collision is looming between trade and climate policy. Failure to coordinate these two key components of the broader system could both imperil climate change negotiations and provoke major new trade conflicts. The U.S. and EU should demonstrate leadership by working with G20 partners to develop a 'Green Code' of multilateral trade disciplines along the lines of the proposed Code of Good WTO Practice on Greenhouse Gas Emissions Control, and consider new trade negotiations to address these potential commercial and climate trade-offs.[14]

Lead on Global Competition Policy

For free trade and global economic integration to have any meaning in terms of raising welfare, markets have to be relatively open and competitive. Of all the world's economies only those of the United States and the EU have any meaningful competition policies.[15] Moreover, although the two authorities have been at odds in some recent cases such as those concerning Microsoft and GE, there is a long history of cooperation between the U.S. Justice Department and the EU's Competition Directorate. They may not always agree on the decisions, but they speak the same language and share a basic philosophy of competitive, market economics. The success of the global economy and the rise of Japan, the Asian tigers, and now China and India over the past fifty years have rested significantly upon this doctrine that is promoted and protected by the transatlantic duo. Yet much of the rest of the world not only doesn't embrace the doctrine, but pursues mercantilist policies that tend to undermine it. In the long run, the competitive market system will not perpetuate itself and its benefits unless there is a globally institutionalized mechanism for promoting and protecting it. The United States and the EU should consider joining together to lead creation of such a mechanism in the WTO. To prepare for this, the U.S. and the EU might consider creation now of a joint study group to develop the principles and concepts that would lead to a formal WTO proposal and eventually to the creation of a global competition policy body. Such an effort would also have to take a new approach to anti-dumping measures. But this should not be a major problem in the context of meaningful competition policy and viable regulations, procedures, and enforcement mechanisms. Only the U.S. and the EU can do this, and it is in both their interests to do so as fast as possible.

Conclusion: Using the Transatlantic Partnership to Create Jobs and Fuel Growth

There should be no illusions about the difficulties involved in advancing this agenda. Remaining transatlantic tariff barriers, especially in agriculture, often reflect the most politically difficult cases. Some of the most intense transatlantic disagreements have arisen over differences in regulatory policy. Issues such as food safety or environmental standards have strong public constituencies and are often extremely sensitive in the domestic political arena. To complicate matters further, responsibility for regulation is split in the EU between European and national levels, and in the U.S. between the federal and state governments, so simply getting the right people into the room can be a real challenge. Investment barriers, especially in terms of infrastructure and transport sector ownership, will be very difficult to change.

The potential payoff of such an initiative is high, however, and will translate into jobs and economic opportunity not only for Americans and Europeans but for billions around the world.

Such a comprehensive effort would create millions of jobs and boost economic growth. A 2005 OECD study estimated that a comprehensive transatlantic economic initiative – eliminating tariffs on goods, and reducing regulations and barriers to mutual investment – would permanently boost GDP per person by up to 3.5% on both sides of the Atlantic. This is the equivalent of giving every American and every European a year's extra salary over their working lifetimes. It could create 7 million jobs in the transatlantic economy.[16]

Even partial successes could have significant positive benefits for jobs, trade and investment. Given the deep integration of the U.S. and European economies, greater gains would achieved by reducing or aligning regulatory barriers, rather than eliminating trade barriers. A 2009 study for the European Commission, for instance, estimates that aligning half of relevant non-tariff barriers and regulatory differences between the EU and U.S. would push EU GDP .7% higher in 2018, an annual potential gain of €122 billion; and boost U.S. GDP .3% a year in 2018, an annual potential gain of €41 billion. An average EU household would receive an additional €12,500 over a working lifetime, and an average U.S. household would receive an additional $8,300 over a working lifetime. U.S. exports would increase by 6.1% and EU exports by 2.1%. Such an effort would be 3 times more beneficial to the U.S. and EU economies than current offers on the negotiating table in the Doha Round regarding manufacturing, services and sectoral agreements.[17] Even a 25% reduction in non-tariff barriers could lead to a $106 billion increase in combined EU and U.S. GDP.

A U.S.-EU zero-tariff agreement on trade in goods alone could boost annual EU GDP by up to .48% and push EU exports to the U.S. up by 18% ($69 billion); and boost annual U.S. GDP by up to 1.48% for the U.S. and push U.S. exports to the EU up by 17% ($53 billion).[18] According to the European Center for International Political Economy, Transatlantic Zero would lead to $120 billion in added growth in the U.S. and the EU within five years of signing the agreement. Under the U.S.-

Korea FTA, U.S. exports to Korea would likely increase by $9.7-$10.9 billion. But under a Transatlantic Zero Tariff Agreement, U.S. exports to the EU would increase by $53 billion – five times as much. The numbers speak for themselves. According to a study conducted by the Dutch firm Ecorys, a 75% reduction of services tariffs would yield almost $13.9 billion annually for the EU and $5.6 billion for the U.S.[19]

The U.S.-EU relationship remains the foundation of the global economy and the essential underpinning of a strong rules-based international economic order. Americans and Europeans literally cannot afford to neglect it. Instead, they need to put their partnership to work – to open transatlantic markets; strengthen global rules; leverage global growth, human talent and innovation; and expand economic opportunity to billions of people around the world. A 21st Century Transatlantic Partnership is within their grasp, but it is not the relationship they have today. Given the challenges they face, such a partnership is urgent. The central challenge is to mobilize political and economic leadership behind ambitious goals, tied to pragmatic steps forward. The time to begin is now.

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[1] For figures in this section, as well as further up-to-date data, see Daniel S. Hamilton and Joseph P. Quinlan, *The Transatlantic Economy 2013: Annual Survey of Jobs, Trade and Investment between the United States and Europe* (Washington, DC: Center for Transatlantic Relations,2013). Unless otherwise indicated, data are from Eurostat, the U.S. Department of Commerce, the WTO and the IMF; investment and investment-related jobs are from the U.S. Commerce Department's Bureau of Economic Analysis; trade data are from the IMF Trade Statistics and the Office of Trade and Industry Information of the International Trade Administration.

[2] See Daniel S. Hamilton and Francis Burwell, eds., *Shoulder to Shoulder: Forging a Strategic U.S.-EU Partnership* (Washington, DC: Center for Transatlantic Relations, 2009).

[3] For a related business statement to this effect, in which the author was involved, see the Joint Statement by the Business Roundtable and the TransAtlantic Business Dialogue, February 2012, available at http://www.tabd.com/images/stories/BRT-TABD_Vision_for_a_TAP_Feb_3_2012.pdf

[4] I am grateful for insights gathered from a range of discussions with senior business and government leaders on the relative merits of a 'single undertaking.'

[5] See Hamilton/Burwell, op. cit., 2009; also Fredrik Erixon and Matthias Bauer, "A Transatlantic Zero Agreement: Estimating the Gains from Transatlantic Free Trade in Goods," ECIPE occasional Paper No. 4/2010 (Brussels: ECIPE, 2010).

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NEW DIRECTION
THE FOUNDATION FOR EUROPEAN REFORM

May 2013
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