



Washington, 3 May 2011

Subject: Report of the EU Trade Counselors Meeting on 28 April

Summary

The key-note speaker on 28 April was Bruce Stokes (a well-known trade expert and Fellow at GMF) who said that the future of US trade policy will be dictated by the health of its economy. The options available to achieve a sustainable current account deficit included pursuing a weak dollar policy, stricter enforcement of AD/CVD laws (although this would not have any macro-economic effects), and greater proliferation of FTAs.

In terms of the prospects for greater transatlantic economic cooperation, Stokes could not foresee this materialising in the near future unless the two partners would take the jump and agree to a full and deep FTA. Stokes has made the case for a transatlantic FTA since many years. He also thought the TEC process is based on "a flawed model", and that it has to develop more "real issues".

On Market Access it was agreed that an ad hoc meeting would be convened in the near future to deal exclusively with trade barriers.

Details

Presentation on US Trade Policy by Bruce Stokes (GMF)

Bruce Stokes, Senior Transatlantic Fellow at the German Marshall Fund, discussed the current state and prospects of US trade policy. We have to at least "entertain the idea" that US trade policy will be framed by the role and sustainability of the US economy. The US current account deficit, which currently stands at 5-6% of GDP, has to be decreased to sustainable levels identified as 2-3% of GDP. To reach sustainable levels, a couple of options are available: (1) accept slower growth and reduce consumer spending; or (2) strive for export-led growth. Disregarding the former as both morally and politically unsustainable, Stokes (like President Obama) think export-led growth is the better policy option, but that current trade initiatives (e.g. National Export Initiative – to double US exports by 2015) are not sufficient in isolation. More fundamentally, the US needs to stop being the world's "market of last resort", and strengthen its manufacturing base.

One way for the US to achieve greater export-led growth is by way of pursuing a weak dollar policy, the advantages of which would be obtained much faster and much more easily politically than by engaging in free trade negotiations. However, a weak dollar policy is not credible in the light of the Administration's efforts to pressure China to revalue its exchange rate. On the China currency issue, Bruce could not understand why the EU is taking a back-seat. After all, the EU is paying a higher price than the US, bearing in mind that the Yuan has been fixed to a declining dollar.

A revaluation of the Chinese currency will not alone, however, solve US trade policy. Although highlighting an IMF study estimating that a successful revaluation of the Chinese currency would return a third of US manufacturing once lost to China, Stokes said additional measures have to be adopted. There were reasons to expect the US to adopt greater protectionist trade policies, e.g. more far-reaching Buy America provisions and stricter enforcement of AD/CVD law, but also attempts to negotiating free trade agreements (FTAs).

There is a favourable political climate in the US at the moment for the three pending FTAs to be implemented (Colombia, Panama, South Korea) and for seriously advancing in the Trans-Pacific Partnership (TPP) negotiations. The political situation is aided both by the Administration's self-interest in these trade deals - it wants to show that it can deliver on a trade agenda - but also by the fact that politicians are having to focus more on other issues, like the deficit.

On the TPP and the prospects of having Japan to join, Stokes was cautiously optimistic. On the one hand, Japanese participation would allow greater market access for US exports and it would be strategically important to have Japan "on the US' side" in the event China joins the negotiations. On the other hand, however, Japan is deemed as a complicated trading partner (extensive NTBs and past experience of only "paper" market access") and US officials do not want to see the TPP suffer the same destiny as the (failed) FTA of the Americas. In any event, the current negotiations have to accommodate for the possible entry of China, e.g. shaping of SOE rules, whether or not Japan joins the negotiations.

On the prospects for greater transatlantic cooperation, Stokes disclosed his long-standing support for a transatlantic FTA given that the EU is a similarly developed economy with similar interests and shared values as the US, but that he could not foresee such an agreement in the foreseeable future. Basically, there is a lack of political interest. Moreover, Bruce thought the TEC is based on "a hopelessly flawed model", and urged the forum to address real issues, such as China.

Anders Ahnlid, Visitor Director General, Swedish Ministry of Trade

Mr Ahnlid joined the Trade Counselors Meeting after having met with several US counter-parties in the USTR, the Department of Commerce, and the Department of State. His impressions were that no one is dwelling on the DDA, and that the TEC process is regarded as an important vehicle for future cooperation. Taking note of Bruce Stokes' pessimistic views of the TEC, Mr Ahnlid thought it was evident that the TEC's regulatory projects were important and key to EU-US cooperation.

In furtherance of greater EU-US cooperation, the Swedish government and the German Marshall Fund is funding a task force of transatlantic trade scholars and experts to address new ideas, following the DDA, for how to strengthen the economic integration of

the two economies. The task force is projected to produce its final report by the end of this year or early next year.

Furthermore, there was evidence of good cooperation between the EU and the US in relation to third countries, most notably on China and the accession of Russia to the WTO. Mr Ahnliid was under the impression that this cooperative relationship could and should be extended to the challenges in North Africa and the Middle East.

North Africa and the Middle East

On the challenges in North Africa and the Middle East, Hiddo Houben conveyed that there are signals from US counter-parties asking for the EU to imagine whether initiatives are possible like those taken when integrating Central and Eastern-Europe after the fall of the Wall in 1989. According to some, EU policy at the time would roughly be separate into two stages: (1) free trade agreements, development projects, aid, and conditionality on integration among themselves and adoption of human rights and the rule of law; and, much later, (2) adoption of the *acquis*, and negotiations on EU membership.

Recognizing that the situation in North Africa and the Middle East is in no way comparable to post-1989 in Europe, either situationally or politically, it may nonetheless be possible to imagine incorporating some parts of the first stage described above. To this end, member state embassies should temper US counterparties on what the EU and the US can deliver in the region; nonetheless, it would be appropriate for both sides to examine how our respective policy initiatives can be made mutually supportive.

Update on US Trade Policy by Hiddo Houben

Since the mid-term elections of November 2010, the Republican members of Congress have been successful forcing movement to adopt the three pending FTAs, *inter alia* by blocking the confirmation of Gary Locke as new Ambassador to China, granting permanent-normal-trade-relation (PNTR) with Russia. Republicans have conditioned voting on these issues upon the Administration delivering a clear time-frame for submitting 'the package' of FTAs to Congress.

On Russia's accession to the WTO, the Administration's narrative is that the US cannot prevent the accession. Rather, the question is whether US-Russia will have MFN trade relation. Congress is likely to be asked to vote on PNTR after the conclusion of the working-party in Geneva.

On the TPP, (see comments of Bruce Stokes above) there is broad consensus in the Congress, the Administration and US Agencies to seriously engage in the negotiations. This broad consensus shall be compared to other trade issues, most notably the Russian accession, in which there are seriously disparate views of the Congress and the current Administration.

On the TEC, there was a recent telephone call held between Karel de Gucht and Michael Froman where both parties expressed a desire to see more projects in order for the forum to become more economically relevant. To this end, member states are encouraged to provide their suggestions on how to develop the TEC process.

On the DDA, the EU will submit a new proposal to try and bridge the divide between the US and the BRICs. However, the proposal may not provide enough momentum to re-energise the Doha Round in the US.

Market Access – Updating the top trade barriers list

Recalling the purpose behind the exercise to identify the top US trade barriers, Delegation stressed the importance for the EU to maintain a collective and coherent line in public and private talks with US counterparties. Based on feedback from Member States, there is a rather stable "climate" in the US with the most pressing trade barriers including the 100% scanning and Buy America requirements. In furtherance of this exercise, Delegation encouraged Member States to submit detailed lists of trade barriers they find most pressing; in particular, views on the Jones Act were encouraged. The UK had made suggestions on adding language on new legislative proposals regarding Buy America. In addition, the Netherlands enumerated a list of trade barriers identified by its businesses as the following: (1) the Dodd-Frank Act; (2) Foreign Account Tax Compliance Act (FATCA); (3) Privacy legislation; (4) AD/CVD law enforcement (zeroing); (5) Libya and Iran sanction regimes; (6) Jurisdiction of the Committee on Foreign Investment in the United States (CFIUS).

Spain was of the opinion that Market Access did not receive enough attention at the Trade Counselors meetings and asked for the establishment of a separate Market Access Group. Moreover, there should be a change of strategy and there should be a more structured way to follow up how the identified trade barriers were addressed and – supported by the Netherlands – the EU should "bite harder" on the long-standing issues. Delegation reminded that the trade barriers list and the issue of new trade barriers had been raised since March, with limited inputs from the Member States so far. It was, however, agreed that a separate meeting on Market Access would be organized in the near future.