



Washington, 19 October 2011

Subject: Minutes of EU Trade Counselors Meeting of 17 October 2011

Remarks by Gary Hufbauer from the Peterson Institute

Gary Hufbauer spoke to the EU Trade Councilors about the prospects of U.S. Trade policy following Congress' approval of the three FTAs. , In the next weeks the U.S. is going to move forward to finalize the trucking agreement with Mexico. The dispute is now 15 years old but a solution is finally in the testing phase. Further, if the EU can sign off on Russian accession, the U.S. will move forward on WTO entry, although a Congressional vote on PNTR will not be possible this year. Mr. Hufbauer did note that it is possible that a Republican candidate may take a hard line on Russia as part of campaigning, like Romney has done with China.

In terms of more optional agenda priorities, a few key areas stand out.

- 1) Firstly there is TPP which has become Obama's signature trade project. They are having difficulties and it is unlikely this will be concluded in 2012. The U.S. is not only thinking of current members, but the future inclusion of Korea (almost certain), Japan, Canada and possibly China. U.S. trade with current TPP countries is only 7%. If Japan, Canada and Mexico were to join it would encompass 35-40% of U.S. Trade.
- 2) Mr. Hufbauer believes the current Administration will not bring forward trade legislation in 2012, except PNTR for Russia. But whoever is president in 2013, certainly if Congress is Republican, will likely ask for TPA. The question would then become whether TPA will be granted in a 'clean' bill or instead with lots of conditions attached in terms of negotiating objectives that have to be met.
- 3) If President Obama decided to pay greater attention to Doha (which is currently on the backburner) it is not completely excluded that he would make a commitment to act in the future (2013 or 2014), but it would come with strings attached (see below).

Mr. Hufbauer then went on to discuss the impact of Doha on the future of the WTO. He believes many share the view that Doha should be divorced from the WTO, so that a Doha failure is not equated with a failure of the WTO. He attributed the inability to reach a conclusion in Doha to 3 critical flaws. Firstly, the economies of the BRICS (minus Russia) but with Indonesia and Turkey have grown enormously while they decided to stick obstinately to their developing country status. Additionally, they have the highest levels of protectionist measures with the lowest willingness to make meaningful concessions. Secondly, China's exports have exploded. BRICS and others are frightened

that concessions they would make multilaterally would increase Chinese exports – Brazil is the most outspoken of these. Thirdly, there are two structural failings: the single undertaking and decision making by consensus. These conditions make it almost impossible to reach a deal.

The way forward he sees for the WTO to have a negotiating future is through plurilateral agreements that derogate from MFN. Hufbauer suggested this was possible if $\frac{3}{4}$ of the WTO membership agreed that there can be agreements within the WTO that they are not a part of. (Comment: we believe a derogation from MFN would require either an FTA of consensus of the membership.) An advantage of this approach is, according to Hufbauer, that there will be no need to establish a minimum critical mass like in the case of the 1995 ITA agreement. As for dispute settlement, this can go on for a while without new negotiations; however, panels will be increasingly faced with new issues like currency, climate and fossil fuel subsidies. This could lead to stress in the system and countries beginning not to comply with findings they deem unsatisfactory.

He imparted that he wasn't sure if leaders are up to these big new thoughts, but acknowledged there is great potential in the EU and U.S. working together, and either leading plurilaterals or working outside the WTO on trade in services, although some issues of mutual distrust would need to be overcome. Hufbauer, like many of his colleagues at the Peterson Institute, stressed that services are the future of the international trading system because the potential gains of liberalisation for the US (and EU) are so large. (Comment: In another Peterson Institute event the next day, a speaker highlighted the paradox that "The US has spent 50 years liberalizing trade in manufacturing when US comparative advantage is in services.") A difficult obstacle to such an agreement would be that authority on these issues traditionally lies at the member state and sub-federal state level. While financial services may be easier because they are increasingly federal, licensing, medical, educational etc. services are still managed at the state level. There is however a good reason to move forward – due to the geo-political component of Chinese influences. China will become a center of gravity for the international system unless the EU and U.S. begin to coordinate policy.

Questions and Answers

When asked by MS whether or not an EU-US FTA would benefit both economies and whether or not it would pass Congress, Mr. Hufbauer was confident in both. As far as economic benefits were concerned, such an agreement would push out the efficiency and competitiveness frontier for all countries. When considering Congressional passage, an EU agreement would be far less controversial than past agreements with developing countries. The biggest obstacle on the US side would be the farming community.

When asked about Republican candidates' views on trade policy, he seemed confident that all 3 leading contenders (Romney, Perry and Cain) would be proactive on trade policy. While Romney's China commentary may worry some, it is largely political and in line with such posturing in the past. If Obama were to win re-election (surviving issues of unemployment and home value deterioration) he would certainly have a new trade agenda and would move more towards centrist policies.

When asked about the status of the Peterson Institute report on transatlantic relations currently in the works, he said that they have not gotten as far as they would like, but would have something ready in the near future. The focus would be less on FTA than on

what could be done in the short to medium term, notably on transatlantic dialogues. He noted that these are often disappointing in the sense that you have high-level involvement with results usually remaining modest.

When asked about whether or not the U.S. would grant Russia PNTR by the end of the year, Mr. Hufbauer said there simply weren't enough days in the Congressional calendar, particularly in light of the Budget hearings. He surmised that the Russia issue could be taken care of by March 31st.

He was very receptive to the idea of a zero-tariff agreement (possibly partially or wholly excluding agriculture) as a way forward for the Administration. This could certainly be proposed and would be a dynamic and forward looking proposition, although the issue of interaction with the WTO system would need to be thought through. He went on to say that the Republicans might also be able to re-brand such an initiative if in office.

Mr. Hufbauer also addressed the role of China and Chinese companies. China is trying to obtain IP on the cheap among others, through three methods: counterfeiting, indigenous innovation policies and industrial espionage. Overall the Chinese are happy with the status quo in the WTO and are only likely to change their views if a significant coalition of countries make it known that they will no longer tolerate some of these behaviours.

When asked about whether or not the TPP could be imported into the WTO as a plurilateral agreement under Annex 4, he said it was possible, but it was more likely that, like ACTA, this would not be part of the WTO framework.

Polish Presidency Updates and Remarks

The Netherlands, Germany and Belgium were thanked for their help so far on the best-practices collection for export promotion. Wider participation was encouraged and Pawel Pietrasienski reiterated that the deadline for submissions is November 15th. Presentations will likely take place in the middle of December when the Polish delegation will present the report and several countries (France, Belgium, Netherlands, Germany and Poland) will give mini-presentations.

The Trade Counselors trip is set to take place December 6-8th and still needs 4-5 member states in order to make a successful trip and reach 15 members, as there are 9 members currently on board. The Polish Trade team had been working to schedule company visits, including on SMEs and venture capital. Hiddo Houben suggested that all trade Counselors respond with either a yes or a no by the end of the week.

Delegation Updates

TEC

The date of the TEC has been set for November 29th. There is a rough idea of who will participate on the EU side, likely Commissioners De Gucht, Tajani/Zourek, Oettinger, Geoghegan-Quinn, and Semeta. Transatlantic innovation will be on the agenda with -e-mobility cooperation as high profile issue following interventions by Mike Froman, Karel De Gucht, Ford and Audi at last week's ANSI-ESO conference. As there have already been concrete steps taken in this area such as a harmonized single-port fast charging approach. Other key issues will include raw materials, facilitating trade (mutual recognition, supply chain security) regulatory cooperation, investment cooperation and a

possible tie-in to SME conference and contacts. Denmark inquired about the issue of e-health. The European Commission confirmed this was likely to be in the agenda, encouraging Member States to voice their interest in Brussels also.

Jobs Act

A summary was given on the U.S. Jobs Act and the concern that funding channelled via grants to US state and municipal agencies with Buy American provisions and no GPA obligation. The best way forward is currently being discussed. However, as there is no certainty whether the bill will go anywhere it is important to be prudent. Commissioner de Gucht of DG Trade may send a letter to express concern about protectionist aspects of the bill and the negative precedent this sets for other countries. When asked whether member states would support a letter, most seemed favourable. Spain highlighted the issues it faces in procurement, asking that access to railways be made a priority. Michaela Chen said that mass transit has already been raised in a letter to USTR Kirk who has raised the possibility of doing something bilaterally. When asked if the Commission was taking any action at the sub-federal level, Michaela said that USTR Kirk imparted that USTR was reaching out at the state-level, but no EU action had been taken although the issue could be raised by Ambassador Vale de Almeida in upcoming trips. Member States suggested that the trade section provide them with talking points for their Ambassadors when they travel to different states.

Scheduling

The Summit has been tentatively scheduled for Monday November 28th, but will be formally confirmed by the White House 2-3 weeks in advance. It is, however, shaping up to be a "European week" with the Summit preceded by the Energy Council meeting in the morning, as well as the high-level regulatory forum and the TEC then happening on the 29th.

A joint trade/finance counsellors meeting on the G-20 is planned for October 26th, France as G20 chair is currently looking for a senior Treasury counterpart to participate. Next months trade counsellors meeting may take place on the hill and we are looking to have our last meeting devoted to export promotion somewhere around December 15th.

Iran Sanctions

On November 2nd there will be a legislative mark-up chaired by Ros-Lehtinen new sanctions against Iran.

ETS

Beginning in January all airlines will be covered under ETS for inbound and outbound traffic to the EU. There is a short and lucid opinion of the AG of the ECJ that has been shared with member states on CIRCA and is worth reading. The Commission is depending on member states to defend the directive as it has been coming under bipartisan attack in the U.S.
