



**EUROPEAN COMMISSION**

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## **A European Perspective on Transatlantic Free Trade**

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Professor Lawrence, Ladies and Gentlemen,

Before I start, I want to thank and congratulate the students who put together a great programme.

Europe is complex and two days is far from enough to understand what it is all about. But I am sure that after tomorrow, many of us will know a little bit more than we do right now and I am very honoured to have been asked to give the opening speech.

A clever American once said "neither we nor the members of the European Common Market are so affluent that we can long afford to shelter high cost farms or factories from the winds of foreign competition".

That was 40 years ago.

It was President Kennedy in his last State of the Union address when he talked about fostering more transatlantic trade.

Even though today we are much more affluent than we were 40 years ago – it is still true.

Last month, President Obama in his State of the Union address announced that he supported the launch of negotiations on a comprehensive Transatlantic Trade and Investment Partnership with the European Union and the day after his European counterparts – Presidents Barroso and Van Rompuy - also issued their backing to the launch of negotiations.

This is a unique opportunity.

A Transatlantic Trade and Investment Partnership would be the largest, most important bilateral trade initiative ever negotiated:

- It would cover the two largest economies in the world,
- It would cover the largest trade and investment relationship in the world, and
- It would include the most far-reaching set of legal disciplines on trade and investment that the world has yet seen.

As a result, this negotiation will not be straightforward. And after it is concluded the political process to ratify it will not be straightforward either.

So what I want to do today is...

First make a clear case for why we need this agreement now

And then to give a sense of what is actually going to be in it, so that everyone in the debate understands what we are dealing with.

So... why now? After all, this is not a new idea. Since it has for many years failed to materialise, it is natural to ask what makes it likely that we will make it this time?

To my mind, there are two reasons.

First, the crisis. Back in 2008, when Lehman Brothers filed for bankruptcy in the US, Europe felt the consequences too.

When the crisis reinvented itself and started to prevent some of our Member States from financing their sovereign debt, it was a threat not only to the euro, but also to a US recovery.

There are many lessons to be drawn from the last 5 years, but the clearest one is this profound interdependence.

Because the transatlantic economy...

- with its 2 billion euro a day in trade of goods and services, representing almost a third of world trade,
- with its mutual investments worth more than 2 trillion dollars in total,
- and with its fifteen million workers in Europe and America...

... is in effect a giant transmission belt for the economic changes that happen on either side of our shared ocean.

But if our links can transmit difficulties, as they have done in recent years, they can also transmit growth; as they have done over many previous decades.

And growth is what we sorely need.

On both sides, we are still suffering the effects of the earthquake that hit our economies in 2008. The crisis exposed weakness in Europe's economic architecture which we have had to repair but we are still feeling the aftershocks. In America, the clean-up operation is further advanced, but the recovery remains fragile and a return to full employment is still years away.

That is where this new partnership enters the picture.

Now I am not an economist. I do know that they have all their debates – between Keynesians and monetarists, between supply-siders and demand-siders, fiscal hawks and doves and so forth. But there is a broad consensus on one point. Almost all economists agree with that what President Kennedy said: Trade is an indispensable ingredient of prosperity.

It brings new customers for our exporters, cheaper components for our producers and more competition to make all our companies more efficient.

For Europe, the income effects of the deal that we are now trying to achieve should be between 0.5% and 1% of GDP, meaning hundreds of thousands of jobs.

This is the cheapest stimulus package you can imagine.

So the first reason for a deal now is to provide a commensurate response to the crisis.

The second reason we need to do this now is because the world has changed.

China, India and Brazil play a much different role in the global economy today than they did fifteen, ten or even five years ago. The global centre of economic gravity is shifting.

Clearly, both the US and the European Union need to deepen our relationships with these partners. But we should not ignore the impact of their new roles on our own relationship.

The issue here is one of leadership. Trade ministers across the world know that the best way to set rules for international trade and investment is through the multilateral system of the World Trade Organisation.

That system is still working. This year it will deliver important progress on trade facilitation and its mechanisms for settling disputes remain the most effective of all international organisations.

But the core of its negotiating agenda is blocked, largely because of differences of view between developed powers like the US and the rising stars.

Unfortunately, this slowdown comes at a moment when new rules for international trade and investment are sorely needed to take into account a much more integrated world economy.

We need, then, to find ways to move forward.

An EU-US partnership can act as a policy laboratory for the new trade rules we need – on issues like regulatory barriers, competition policy, localization requirements, raw materials and energy.

These are not necessarily areas where we have transatlantic difficulties. But they are important at a global level. And today our combined weight in the global economy means that many who wish to sell into our markets will have an interest in moving towards whatever rules we can achieve. That effect that cannot be guaranteed in the longer term.

If those are the reasons for building a new partnership, what should be the substance of it?

The easiest part will be removing the duties that remain on goods. The average tariff barriers are already low, between 3% and 5%, but there is no reason they should not go to zero.

The other issues will be harder, but if can tackle them the payoff will be a big one.

Take public procurement. One reason this is difficult is that restrictions here in the US are not just federal but also at state level.

Then there are services. They represent more than half of the value of exports from both our economies but opening access to them is complex because they are intangible and often heavily regulated.

And finally there is regulatory convergence.

If there is one vital part of this agreement it is this one. Most of the gains from this will come from tackling it effectively.

Why so much? Because in a market as integrated as ours, where tariffs are as low as they are, these are the effective barriers that remain.

Naturally, this is also the prize that will be the hardest to reach. But if we are pragmatic, creative and realistic it will certainly not be impossible.

Why pragmatic?

When we talk about transatlantic regulatory cooperation, we often focus on the differences between our systems.

They should not be underestimated. We only have to look at the way we approach hormones in meat, or geographical names like Parma ham to see that. There are tough negotiations ahead.

But if we zoom out – if we take a broader view on regulatory issues – we see that we want the same thing in the end: a high level of protection for our people from risks to their health, safety, financial security and environment.

Ask yourself the following questions:

- Is a seatbelt in a European car more or less safe than in a US car?
- Is a drug approved for the US market more or less safe than one approved in Europe?
- Is an airplane that flies between Chicago and Phoenix more or less safe than one between Copenhagen and Paris?

I am not responsible for regulating any of these areas. But I do know that I felt safe when I drove across Boston this morning. And I think Americans feel equally safe when they step into a European car or buy drugs from a European pharmacy.

A pragmatic approach to regulatory convergence is therefore about recognising that often we have two different systems trying to do exactly the same thing.

Why creative?

Because practical solutions will require us to do things differently. Today regulators on both sides work independently, on their own timelines, with their own constituencies. Their ways of working are deeply engrained in tradition and often in law.

If we want to do things differently we will need all involved in this negotiation to take a long, hard look at the way they work in order to see if it can be improved. How can we bring the other side into the process earlier? Are there ways where we can build on work already done on the other side rather than just duplicating it?

And finally why realistic?

Because we are different societies. As I have said, we share many common values but there are also many issues that Americans and Europeans just see differently. This negotiation will not change that fact. And if it is to be successful we need to be clear that it will not call those values into question.

There is already an overwhelming amount we can do without crossing that line:

If we address...

- all of the differences in procedures;
- all of the scientifically unjustified requirements;
- and then develop common solutions to the most important new regulatory challenges we face...

...then this agreement will deliver the growth we need without undermining the choices we have made. That will not be an easy task. And it will certainly require changes to our respective systems. But it is I believe a realistic one.

A final word on getting this done.

While promoting free trade is a no-brainer from an economic point of view, it is politically sometimes less straightforward.

Strong special interests from protected sectors will always try to throw sand in the wheels. The scale of this agreement will also bring many sceptics out of the woods. Let's face it: the words "Europe" and "America" do not always elicit cheers in either of our populations.

That means that those of us who want to see this process succeed will need to pull together.

That includes not only governments but also civil society in the broadest sense, including the educational and academic community.

Having seen the positive reaction that came from just announcing this negotiation, I have confidence that we can move ahead in the two years we have planned for.

But we will do so only if we maintain our reserves of political will. And if we are willing to translate that will into practical solutions. Bold and comprehensive projects are not rare because they are easy. They are rare because they are hard.

Thank you for your attention.