

Testimony of Jim Kolbe

Senate Foreign Relations Committee

“United States - European Union Economic Relations: Crisis and Opportunity”

23 May 2013

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to appear before the Committee today. Europe is our most important ally and certainly our largest trading partner, so it is appropriate that the Committee is holding this hearing on the current economic situation in Europe and potential opportunities the U.S. and the EU might share that could generate economic growth.

In 2011 and '12, I co-chaired the Transatlantic Task Force on Trade and Investment, a joint project by the Swedish Trade Ministry, the European Centre for International Political Economy (ECIPE) and the German Marshall Fund of the United States (GMF.) In our report, issued in February, 2012—in the middle of a growing Euro-crisis in Europe and a deep economic recession here at home—we concluded that the time was ripe to move forward with a new transatlantic trade and investment agenda to promote economic growth, jobs, innovation, welfare and economic development. I am pleased—as are all the other members of our task force that the Obama administration and the European Commission will soon commence formal negotiations for a free trade agreement along the lines we advocated.

Europe is coping with the most difficult crisis it has faced since Second World War. But it is a crisis not brought on by the machinery of war, but by the inadequacy of its economic and financial machinery. The EU is struggling with a financial crisis that began in 2008 and has now turned into a severe economic and employment crisis. Europe’s attempts to cope with its sovereign debt and ensure bank solvency to stabilize the financial system have shown some success, but high unemployment and social instability remain with signs of worsening ahead.

A prolonged recession could be corrosive to the foundations of the EU. For the past five years, we have witnessed the effects of a persistent and deep recession in Europe. Tensions have risen between the relatively prosperous northern countries in Europe and those struggling in the south as leaders at both ends pull different levers in an effort to bring stability to the economic system and restore growth. As we have seen in recent elections and in street demonstrations—in Italy, Spain, Greece—tensions can quickly turn into anger and resentment towards the EU as populations in the southern countries express resentment towards a range of policies which they believe are placing asymmetrical economic pressures upon them. Over the long haul, if these perceptions cannot be reversed, the economic recession in Europe could very well undermine the legitimacy of more than half a century of EU political and economic integration.

The U.S. has played an important role in Europe affairs, serving as the “offshore balancer” since the early 20th century. For much of the 20th century, the U.S. considered its strategic relationship with Europe to be the most important in the world. Bretton Woods, the Marshall Plan, NATO, the IMF and the World Bank all stand as monuments to that deep relationship. But for the last decade and

particularly as the European economic crisis deepened, the U.S. has adopted more the role of an observer, rather than a full participant.

To the extent that the U.S. viewed economic events in Europe as a matter of serious concern, it has done so primarily through a prism of how economic problems in Europe might affect our own economy. Largely because of our own fiscal and financial difficulties, we have adopted an attitude that this is a problem to be solved by Europe and Europeans. While it is certainly true that the U.S. cannot impose a solution on Europe and a lasting solution must have its origins with Europeans, the U.S. nevertheless has an important stake in helping resolve the economic and financial crisis in Europe.

Europe's economic troubles affect us directly and deeply. The fact is, using any of several different measures, the United States and Europe constitute the most important economic relationship to be found in the world today.

The EU is our largest and most important trading partner. Combined, we account for nearly half of the world's GDP. The U.S. and E.U. account for nearly a third of global exports and imports.¹ In fact, Europe purchased three times as much of our exports as did China and fifteen times more than India. Looked at from the European side of the window, the U.S. purchased twice the amount of European goods as they sold to China and nearly seven times the quantity sold to India.²

An equally important measure of the relationship is to be found in foreign direct investment. FDI is an important component of job creation and represents a long term commitment on the part of the investor to the receiving country. By this measurement, it is clear that Europe and the U.S. look favorably upon each other as an opportunity for investment. Over \$100 billion in Foreign Direct Investment came from the European Union to the United States in 2011 alone. In fact, nearly half of all the current FDI to be found in this country originates in the EU. Likewise, the U.S. invested an estimated \$150 billion in the EU in 2012. Because the U.S. and the EU are advanced economies, much of this investment supports intra-firm trade—international flows of goods between parent companies and their subsidiaries or affiliates in another country. And it is here that the greatest opportunity lies for increasing our already substantial trade.

However, our relationship goes far beyond strong economic ties. We must not underestimate the importance of the strategic, political and cultural relationships that bind us together. We share a deep and abiding commitment to western values of openness, rule of law, free markets, and democracy. We share deep security ties through NATO, arguably the most successful alliance in history. Simply put, we are heavily invested in each other's success.

The economic malaise in Europe has a direct impact on these strategic links that tie the United States and Europe together.

A persistent economic recession in Europe, if not reversed, threatens to undermine the very foundations of the EU and the process of EU integration with far reaching results. For example, the countries of southern Europe are young democracies, many born as recently as the 1970s. The peoples of these

¹ Source: Hamilton, D. and Quinlan, J. (2011) *The Transatlantic Economy 2011*, Center for Transatlantic Relations.

² Source: "A New Era for Transatlantic Trade Leadership, a Report from the Transatlantic Task Force on Trade and Investment," February 2012, European Centre for International Political Economy and the German Marshall Fund of the United States, page 16.

nations rejected an authoritarian past as they looked northward for inspiration to a unified Europe that was democratic, strong and prosperous. Even today, EU membership is a strong attraction to many former Soviet bloc nations in eastern and central Europe, and others on the periphery, like Turkey, as these countries either reorient their economies away from a Soviet managed economic system or to manage conflicting national identity issues. The EU provided a means of transcending these conflicts, many of them centuries old, as EU membership give their citizens a sense of belonging to a unified Europe. They also view membership in the EU as a source of economic opportunity as they join a continent-wide, internal market, free of tariff and other barriers that continue to stunt intra-continental trade in such regions as East and West Africa or Southeast Asia. If Europe is unable to reinvigorate growth and opportunity in its southern tier, it risks fracturing this consensus surrounding the benefits of European integration. Southern Europe, struggling with high unemployment and economic uncertainty, is likely to see only the suffering and hardships of austerity and little of the benefits that might flow from continued EU membership.

For the United States, this prospect of a fraying political and economic consensus in Europe poses a difficult dilemma. The U.S. has derived important national security benefits from a prosperous and unified Europe. Europe has been an important ally of the United States economically, politically and militarily. The U.S., working in concert with a strong Europe, has had the ability to leverage and project our influence and our shared western values. With increasing integration of the EU, Europe will continue to develop and strengthen its own institutions of parliamentary and federal democracy. This contributes to a virtuous cycle whereby Europe builds and strengthens internally. A Europe which can better organize its internal affairs will be better able to act in concert with the U.S. in external affairs.

But assume for a moment that Europe is instead consumed by a vicious cycle, struggling with increasingly severe economic problems and a fraying political consensus. In such an environment, strategic challenges may develop on the international scene, and the U.S. and EU could find themselves unable to mount a unified response. For example, the U.S. has real interest in Europe's ability to address security problems emanating from North Africa. But if the Mediterranean tier of European Union countries turns its back on economic and political integration, meeting such challenges would be difficult at best. Similarly, Russia could take advantage of EU weakness and take a more assertive role in Eastern Europe. Or on the economic front, the US and Europe might find itself unable to mount an effective response to growing Chinese assertiveness in Africa and Latin America.

What, as a policy matter, can the U.S. do to take the sting out of the economic crisis in Europe? I believe the U.S. can have a positive role in working with the EU as it moves towards growth and prosperity. The U.S. and E.U. can together take steps that both assist Europe in weathering its current crisis, while laying the foundation for long-term growth.

As you know, in February, the U.S. and EU announced their intentions to begin negotiations on a comprehensive, high-standard free trade agreement--the **Transatlantic Trade and Investment Partnership**, or TTIP for short. I believe TTIP has the potential for being a vitally important trade and investment agreement which can benefit both economies. But we should also view it as being in our strategic national interests.

Trade liberalization is at the heart of the EU project. In 1951, the Treaty of Paris, signed by France, Germany, Italy, and the Benelux states (Belgium, the Netherlands and Luxembourg) created a common market for coal and steel. This alliance--the stepchild of the visionary Frenchman, Jean Monnet--developed into the European Economic Community and, later became the European Union. Since its

creation, the EU has undergone several more iterations of integration—notably the Masstricht Treaty creating the Euro currency and the Lisbon Treaty refining and expanding the EU political institutions. What began as a way of drawing the continent of Europe together in peaceful trade and economic development after the horrors of the wars of the early twentieth century has become a pathway to deep political integration.

The Transatlantic Trade and Investment Partnership—TTIP--will directly benefit the United States in several ways. First, it can renew and rebuild the historic U.S.-EU relationship and draw the U.S. and EU even closer together. For four decades of Cold War and two plus decades that have followed, the United States has benefitted from a unified and prosperous Europe. A stable and peaceful Europe, a deeply integrated economy, and a shared commitment to democracy provides the U.S. with a strong and focused partner that helps to promote a common approach to political and military challenges as they arise in other parts of the world.

Second, TTIP will demonstrate to southern EU member states and to the United Kingdom new benefits to EU membership. The U.K. is engaged in a robust debate over its future in Europe with Prime Minister Cameron calling for a referendum on the future of the U.K.'s participation in EU integration. TTIP will provide a powerful incentive for the U.K. to consider favorably its position in the EU since they would draw on the benefits of trade liberalization flowing from TTIP.

Third, U.S.--EU cooperation on TTIP will deliver benefits on the economic global stage. As we noted in our report on Transatlantic Trade Leadership, U.S. and E.U. still lead the world when it comes to global economic policy-making. This position is likely to remain for many years to come. Historically, the U.S., EU, and Japan led multilateral trade talks. While other countries such as China, India, and Brazil are catching up in terms of their economic influence, the U.S.-EU partnership is indispensable to provide global leadership on trade liberalization. Because of its sheer scope and size, TTIP can help overcome “trade fatigue” and spur efforts to remove trade barriers around the globe. This is particularly important in the wake of the stalled Doha round of WTO negotiations. TTIP can provide a strong incentive for advancing rules-based trade liberalization. If fashioned properly, it can provide an open door through which other countries can walk and join in an ever-widening circle of countries committed to trade liberalization.

The TTIP trade agreement is unlike any other we have ever tried. It is unprecedented in its scope. It will be the largest FTA ever attempted and it will be an eye to eye negotiation among equals. It will require the significant attention, time, and resources of the entire U.S. government. We are not just negotiating solely with EU Commission; in effect, we are negotiating with 27 EU countries, each of whom will present unique challenges.

Let me suggest a couple of ground rules for TTIP if it is to meet the high expectations that are being set for it.

It should be ambitious

The negotiation should begin with an eye to being as comprehensive as possible. There are certainly sensitive sectors on both sides of the negotiating table. The U.S. has long-standing demands with respect to agriculture, such as how to handle the issue of genetically modified organisms (GMOs). The French have already indicated a demand for a “cultural exception” which would preserve restrictions on U.S. imports of movies and television. Europe as a whole wants to pry open the vast market of fifty

states' government procurement codes. Both sides should take the position that everything is on the table for discussion; don't take sensitive sectors out of the negotiations before we even begin or we will end up with an agreement that disappoints us all.

It should have a strong focus on regulatory convergence and equivalence.

While tariff barriers in both the US and Europe are low (averaging in the 3-5% range with some notable tariff peaks), complete elimination of tariff barriers will provide significant economic gains given the sheer size of our trading relationship. But the real gains from the agreement will come from eliminating non-tariff barriers (NTBs). To use an example in automobiles, the same car being produced in the U.S. and Europe is subjected to different safety and environment testing, even though the regulatory outcome is nearly identical. These different testing rules which lead to the same safety and environmental outcomes add significant costs to the overall product and, ultimately, to the consumer, placing our industries at a competitive disadvantage. One study commissioned by the European Commission indicated that these NTBs are equivalent to an ad valorem tariff of approximately 26%.³ It is the American consumer who pays that tax. Achieving a workable process for our industries to develop mutual recognition on regulatory development should be a top priority for both sides in any negotiation.

Mr. Chairman, members of the Committee, this is the moment for the United States and Europe to negotiate the broadest, boldest, trade and investment agreement that has ever been contemplated since World War II. The time is ripe. The will is there. The benefits for all are obvious.

I commend you for holding this hearing. I urge you to keep the pressure on the administration, our negotiators, and all the special interest groups for the next several months to be certain we do not falter and that the outcome is no less tomorrow than what we contemplate today.

Thank you.

³ ECORYs Nederland BV, "Non-Tariff Measures in EU-US Trade and Investment: An Economic Analysis", p. 48, 12/11/2009, cited by the Auto Alliance, May 10, 2013 comments submitted to the U.S. Trade Representative.