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on Transatlantic economic relations
(2005/2082(INI))

Committee on International Trade

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on Transatlantic economic relations (2005/2082(INI))

The European Parliament,

- having regard to the Transatlantic Declaration on EC-US relations of 1990, the New Transatlantic Agenda (NTA) of 3 December 1995¹ and the Transatlantic Economic Partnership (TEP) of 18 May 1998²,
- having regard to the Bonn Declaration of 21 June 1999³ and, in particular, to its sections on "Promoting Prosperity and Development in a Rapidly Changing World" and "Improving Early Warning",
- having regard to the "Positive Economic Agenda" of 2 May 2002⁴,
- having regard to its resolution of 9 June 2005 on transatlantic relations⁵ as well as to its previous resolutions of 17 May 2001⁶, 13 December 2001⁷, 15 May 2002⁸ and 19 June 2003⁹, and to its resolutions of 22 April 2004¹⁰ and 13 January 2005¹¹,
- having regard to the Commission Communication of 20 March 2001 entitled "Reinforcing the Transatlantic Relationship: Focusing on Strategy and Delivering Results" (COM(2001)0154),
- having regard to the Commission Communication of 18 May 2005 entitled "A stronger EU-US Partnership and a more open market for the 21st century" (COM(2005)0196),
- having regard to the 2004 Declaration on "Strengthening Our Economic Partnership"¹²,
- having regard to the outcome of the EU-US Summit held on 20 June 2005 in Washington DC and, in particular to its Economic Declaration,
- having regard to the Joint EU-US Work Programme for the implementation of the Economic Declaration adopted at the EU-US Economic Ministerial of 30 November 2005,
- having regard to US Congress Draft House Resolution 77 on Transatlantic Relations presented on 9 February 2005,
- having regard to the study by the OECD on the benefits of liberalising product markets

¹ Signed at the EU-US Summit in Madrid.

² Joint statement adopted at the EU-US Summit in London.

³ Signed at the EU-US Summit in Bonn.

⁴ Agreed at the EU-US Summit in Washington.

⁵ *Texts Adopted*, P6_TA(2005)0238.

⁶ OJ C 34 E, 7.2.2002, p. 359.

⁷ OJ C 177 E, 25.7.2002, p. 288.

⁸ OJ C 180 E, 31.7.2003, p. 392.

⁹ OJ C 69 E, 19.3.2004, p. 124.

¹⁰ OJ C 104 E, 30.4.2004, p. 1043.

¹¹ OJ C 247 E, 6.10.2005, p. 151.

¹² Signed at the EU-US Summit in Shannon, 25-26 June 2004.

and reducing barriers to international trade and investment ('Preferential Trading Arrangements in Agricultural and Food Markets - The Case of the European Union and the United States', published in March 2005),

- having regard to its resolution 1 December 2005 on preparations for the Sixth Ministerial Conference of the World Trade Organisation in Hong Kong¹,
 - having regard to the hearing of the Committee on International Trade on 26 May 2005 concerning transatlantic economic relations,
 - having regard to the working document of the Committee on International Trade (PE 364.940),
 - having regard to its resolution of on improving EU-US relations in the framework of a Transatlantic Partnership Agreement²,
 - having regard to Rule 45 of its Rules of Procedure,– having regard to the report of the Committee on International Trade and the opinions of the XX and YY Committees (A6-0000/2006),
- A. Whereas economic ties between the EU and the US are an important stabilizing pillar for the transatlantic relationship in general and have grown so significantly over the last decades that both partners have an increasing stake in each other's economic development,
- B. Whereas the moment has arrived for greater political leadership and vision from both partners in order to update the New Transatlantic Agenda (NTA) of 1995 and the Transatlantic Economic Partnership of 1998 to take account of new realities and to deepen the transatlantic ties,
- C. Whereas Europe and the US must venture into the future on the clear assumption that a stronger transatlantic bond with a more sophisticated overarching philosophy and a firmer structure will render both parties more prosperous and able to successfully address the global challenges in the inter-related fields of security, world economic governance, environment and poverty reduction,
- D. Whereas the EU-US bilateral economic relationship and the multilateral agenda should be seen in light of a complementary and mutually reinforcing positive process, and whereas the benefits from an even more integrated market would spill over onto the wider economic relationship of Europe with the Americas,

A *de facto* Transatlantic Market

1. Stresses that although it may have appeared in recent years that the strain on EU-US relations in the political field had at times affected the economic sphere; and whereas it may have also appeared as if the appeal associated to globalization and emerging markets such as China, India and Brazil had reduced the magnitude or significance of EU-US

¹ Texts Adopted, 1.12.2005, P6_TA(2005)0461.

² Texts Adopted,

economic ties; in fact, as recent works¹ clearly demonstrates, the opposite is true: a) Trade between the two great markets has reached unprecedented levels with trade exchanges alone being worth a billion Euros a day; b) Mutual Foreign direct investment (the deepest form of cross-border integration) across the Atlantic now amounts to over € 1.5 trillion and has grown considerably; c) European and US foreign affiliates' profits in each others' markets have surged to record figures since 2003;

2. Underlines in this respect that such EU-US economic ties translate into a substantial volume of employment since close to 7 million jobs on either side are already provided by the transatlantic economy and therefore remain dependent on its improved functioning and expansion;
3. Concludes that, although Europe and the US economies have become so intertwined and integrated that they form a genuine transatlantic market, a large potential for growth and employment still lies untapped due to remaining trade barriers;
4. Notes with concern, however, that in a context where the relationship continues to be publicly characterised by rhetoric and trade disputes, there is still a dangerous gap in understanding, on both sides of the Atlantic, how deep and integrated the transatlantic economy has become; warns against the risks inherent in taking this unique relationship for granted, treating it with benign neglect rather than the required degree of political engagement and attention;

The way ahead: a stronger transatlantic economic partnership

5. Notes that the above-mentioned Commission Communication of 18 May 2005 is a good basis for creating an even more ambitious and substantial economic agenda; stresses that further work is needed to translate the reality of the transatlantic market into an operational and strategic concept that can gather sufficient public and political support;
6. Recommends that by the next 2006 summit the EU and the US agree to both update the New Transatlantic Agenda (NTA) of 1995 and the Transatlantic Economic Partnership (TEP) of 1998 and design a new Transatlantic Partnership Agreement that covers both and leads to the achievement of a "barrier-free transatlantic market" by 2015 with a 2010 accelerated target date for financial services and capital markets;
7. Stresses that the economic chapter of the proposed partnership agreement should provide for a new architecture that includes: 1) Regulatory co-operation; 2) A set of operational tools of an horizontal character (including an effective early warning system, a bilateral mechanism for the settlement of trade disputes and a third-generation agreement on the application of Competition Law); 3) Sectoral economic co-operation agreements building on the above-mentioned Joint EU- US Work Programme;
8. Reaffirms that, in the current environment of growing international competitive pressures,

¹ Daniel S. HAMILTON/Joseph P. QUINLAN (eds.) *Deep Integration : How Transatlantic Markets are Leading Globalization*. June 2005

the vision of such a common economic area is essential to increase the political commitment to a more substantial economic agenda that enhances the competitive position of the knowledge-based economies of both partners; promotes growth and innovation and thereby creates new jobs and increases prosperity;

Follow-up to the Economic Initiative and the EU-US Economic Ministerial of 30 November 2005

9. Supports the adoption at the EU-US Economic Ministerial of the joint EU-US Work Programme for the implementation of the Economic Declaration, which contains concrete activities in 11 areas to move forward the transatlantic economic integration; calls, however, upon both partners to engage in a more ambitious process with a greater sense of direction, long term strategic objectives and a detailed timetable for the implementation of joint actions and projects that takes into account the specific role of independent regulatory agencies; notes in this respect that stakeholders from the already established transatlantic dialogues should be also actively involved in the process of monitoring and review of the Economic Initiative and Work Programme;

I. Promoting regulatory and standards cooperation

10. Welcomes that the commitment to "establish a high-level Regulatory Cooperation Forum", a key element of the June 2005 Summit declaration, has been finally set in motion with the proposal to organise at least two meetings in 2006; recommends a swift and full implementation of the 2005 Roadmap for EU-US regulatory Co-operation; warns that without sufficient and timely involvement and support of the various stakeholders and agencies regulatory cooperation will not achieve the expected results;

II. Stimulating open and competitive capital markets

III. Money laundering and terrorist financing cooperation

IV. Spurring innovation and the development of technology

11. Welcomes the aim to increase synergies across the Atlantic in a large number of crucial areas for the development of stronger knowledge-based economies;

V. Enhancing Trade, Travel and security

12. Asks for specific activities aimed at reaching a common understanding on dual-use technologies to be integrated into the Work Programme;

VI. Promoting energy efficiency

VII. Intellectual Property Rights (IPR)

13. Welcomes the agreement at the EU-US Economic Ministerial to produce by the 2006 EU-US Summit an IPR Enforcement Cooperation Strategy dealing with enforcement in third countries, China and Russia in particular, improved customs and border enforcement

cooperation, public-private partnerships and coordinated technical assistance to third countries;

VIII. Investment

14. Recommends that the 2006 Summit formally adopts a comprehensive inventory identifying the main remaining obstacles to mutual investment together with a list of the required specific actions to reduce or eliminate such obstacles;

IX. Competition policy and enforcement

15. Supports the objective of concluding a further competition agreement with the United States which allows for the exchange of confidential information in investigations under the respective competition laws;

X. Procurement

16. Recommends that the 2006 Summit formally adopts a comprehensive inventory of any legal, practical and technical barriers for cross border procurement between both partners together with a list of the measures to address them; encourages that both partners go beyond existing and future GPA-commitments;

XI. i. Services/ Mutual Recognition of qualifications

XI. ii. Services/Air Transport Services

17. Welcomes recent progress in the negotiations for the liberalisation of EU-US air services and stresses the need to reach, as soon as possible, a full agreement based on reciprocity that solves the issue of ownership caps in US airlines;

WTO Dispute Settlement UE/US

18. Insists that although WTO panels can provoke considerable political friction, trade or economic disputes, which in terms of volume concern less than 2 % of exchanges, are a natural component of such a broad and deep economic relationship and will always be;
19. Recommends, as a crucial element of the proposed Transatlantic Partnership Agreement's economic chapter, a common strategy based on three points to reduce the number of disputes between the largest world trading powers that spill over onto the wider WTO arena:
 - a) a formal commitment at the highest level to respect agreed multilateral trade rules and to implement swiftly and fully WTO panel decisions;
 - b) the creation of a more formalised first-step bilateral trade dispute settlement mechanism that ensures contacts and strong political commitment to exhaust all bilateral diplomatic means before appealing to the WTO dispute settlement

mechanism;

- c) both partners must recognise that legislators and governments have a legitimate right to protect the health and environment of their citizens but the EU and the US have to ensure that their regulations in these fields are non-discriminatory, proportionate and science-based in order to prevent protectionist abuses;

Early Warning System

20. Recommends a more pro-active legislative and regulatory dialogue compounded by an effective early warning system that ensures from the outset that EU and US regulations and legislative proposals are the subject of preliminary in-depth consultations;

Doha Development Agenda

21. Stresses that both the EU and the US carry a special responsibility to work constructively together in the ongoing WTO multilateral negotiations; calls upon both partners to respect the ambitious and broad based programme of the Doha Development Agenda with full regard for the development dimension so as to pave the way for a successful completion of the round in 2006;

The Role of the European Parliament

22. Stresses that while the tasks mapped out in the Economic Initiative concern the regulators first and foremost, achieving a fully integrated transatlantic market will require the active involvement of both sides' legislators; underlines that EU-US Summits should incorporate an adequate level of parliamentary participation to provide parliamentary input into this administrative process led by the two executives; calls for a meeting prior to every Summit between the TLD and the Senior-Level Group to exchange views on the progress of the Work Programme;
23. Calls on its relevant committee to use the draft amending budget 2006 or, at the latest, the budget for 2007 to provide the necessary funds for establishing a permanent EP official post in Washington DC that ensures proper institutionalisation of Parliament's own activities and allows for improved liaison between the EP and the US Congress;
24. Instructs its Presidents to forward this resolution to the Council and Commission, the governments and parliaments of the Member States and the President and Congress of the United States of America.

EXPLANATORY STATEMENT

In recent years, it may have appeared as if the strain on transatlantic relations in the political field had at times affected the economic sphere. It may have also appeared as if the appeal associated to globalization and emerging markets such as China, Brazil or India had reduced the magnitude or significance of transatlantic economic ties. In fact, as recent academic work has demonstrated, and as reflected in this report, the opposite is true: transatlantic commercial and investment ties have never been stronger. For all practical purposes, we are dealing with a genuine transatlantic market with powerful economic glue and a shared sense of common values and standards.

Indeed, against the backdrop of tense political relations following the rows over Iraq, and despite the fact that bananas, export credits and aircraft subsidies keep on capturing media attention, the truth is that economic ties between the EU and the US have become an important stabilizing pillar for the broader transatlantic relationship.

This report focuses on the economic dimension of EU-US relations. It is set to run in parallel and synchrony with Mr. Brok's report in the Committee on Foreign Affairs, which concentrates on the political and foreign affairs issues.

The rapporteur, on the basis of a well established parliamentary co-operation, has undertaken to focus on the overarching framework and main elements of the external dimension of EU-US economic relations while other parliamentary committees are concentrating in their opinions to this report on the specific issues falling under their area of responsibility. The overall result should be a comprehensive, structured and well-balanced report covering the main areas of co-operation and making proposals on key issues.

The report is structured under four main sections. First, the section "A de facto Transatlantic Market" analyses the extent to which the EU and the US economies have become interdependent. The second section, "the way ahead: a stronger transatlantic partnership" proposes a new Transatlantic Partnership Agreement that leads to the achievement of a "barrier-free transatlantic market" by 2015. In view of the upcoming 2006 Summit, the third part deals with the results of the EU-US Economic Ministerial of November 2005. It covers the 11 areas of the Joint EU-US Work programme to move forward transatlantic economic integration. Contributions from other committees are particularly relevant here. The second part of this section deals with issues that go beyond the Work Programme but do require specific attention (i.e WTO Dispute Settlement or the DDA). Last but not least, the fourth and last part of the report is devoted to the role of the European Parliament.

I. A de facto Transatlantic Market

While much has been written and said about the transatlantic divide, there has been little analysis or recognition of the degree of transatlantic economic integration and interdependence.

Trade

Trade between the two great markets has reached unprecedented levels, making the United

States and the European Union each other's main trading partner by far, with a trade relationship alone that is worth a billion Euros a day.

Investment

Mutual Foreign direct investment (the deepest form of cross-border integration) across the Atlantic now amounts to over € 1.5 trillion and has grown considerably, even as political dissent flared over Iraq: over half the EU's foreign direct investment goes to the US, while almost two thirds of foreign investment inflow into the EU comes from the US.

Affiliate profits

The activities of European and US foreign affiliates in each others' market have also witnessed record figures for transatlantic profits as measured by foreign affiliate income over the last years: U.S. foreign affiliates in Europe benefited from record profits (\$101 billion in Europe in 2004) and, despite the strength of the Euro, European affiliate earnings in the US surged to a record \$66 billion in 2004, well over the record earnings of \$47 billion in 2003.

All these numbers show revealingly to which extent US and European economies are interdependent for growth and employment. A recent OECD study¹ of this phenomenon concluded that a fully integrated transatlantic economy, eliminating all of the remaining non-tariff barriers could yield GDP growth of up to 3 %, both in the US and in Europe. EU-US economic ties translate into a substantial volume of employment since close to 7 million jobs on either side are already provided by the transatlantic economy and therefore remain dependent on its improved functioning and expansion.

In view of these facts and figures, the rapporteur puts forward two main conclusions: first, there is a sizeable potential for growth and employment in the Transatlantic market that lies untapped due to remaining barriers, and second, this unique relationship should not be taken for granted, treating it with benign neglect rather than the required degree of political engagement and attention.

II. The Way Ahead: Stronger Transatlantic Economic Partnership

The key question, then, in view of these facts and figures is where to take the EU-US relationship.

The status-quo is not the answer. As underlined by the European Parliament resolution on ensuring the success of the forthcoming EU-US Summit in Washington DC - adopted on 9 June 2005- the status-quo is not sufficient: "the moment has therefore arrived for the New Transatlantic Agenda of 1995 to be urgently revised in order to take account of current realities and further deepen transatlantic relations on the clear assumption that working together brings more benefits to each partner than working in different, or indeed opposing, directions".

¹ OECD Economics Department: *Working Paper "The Benefits Of Liberalising Product Markets And Reducing Barriers To International Trade and Investment : The Case of The United States and the European Union"*. May 2005

Indeed, the rapporteur believes that new challenges—new security risks and taking advantage of the geopolitical and economic opportunities of the new century—demand a renewed transatlantic partnership.

The moment has therefore arrived for greater political leadership and vision from both partners in order to define a common sense of strategic mission and organizational purpose. After a decade of EU-US relations governed by the 1995 New Transatlantic Agenda, a new ambitious and re-focused transatlantic partnership should be put into motion in order to make the relationship with the US less rhetorical and more programmed towards generating economic growth and job creation. The reality of the transatlantic market should be put into an operational and strategic concept that can gather sufficient public and political support. That is why the rapporteur recommends that by the next 2006 summit the EU and the US agree to update the New Transatlantic Agenda (NTA) of 1995 and the Transatlantic Economic Partnership (TEP) that leads to the achievement of a "barrier-free transatlantic market" by 2015 with a 2010 accelerated target date for financial services and capital markets.

The rapporteur believes that the economic chapter of such new partnership agreement should provide for a new architecture based on three main pillars: 1) Regulatory co-operation; 2) A set of operational co-operation tools of an horizontal character, including an effective early warning system, a bilateral mechanism for the settlement of trade disputes and a third-generation agreement on the application of Competition Law, and 3) Sectoral economic co-operation agreements building on the Joint EU- US Work Programme.

This new economic chapter of the proposed partnership agreement should provide, in line with the Economic Initiative, a specific programme for the removal of non-tariff barriers in key markets, mainly through a process of gradual regulatory alignment and mutual recognition of rules and standards.

III. Follow-up to the Economic Initiative and the EU-US Economic Ministerial of 30 November 2005

The "Initiative to Enhance Transatlantic Economic Integration and Growth", which was launched at the June 2005 Summit in Washington, DC outlines an ambitious agenda for deepening economic relations. The most important step since the Summit was the first ever EU-US economic ministerial, held in Brussels on 30 November, and which adopted three important decisions:

- The joint work programme to implement the Economic Initiative of the 2005 EU-US Summit.
- The launching of an IPR enforcement cooperation strategy to be agreed by the 2006 Summit and the creation of an IPR working group.
- The establishment of the high-level Regulatory Cooperation Forum with two events in the first half of 2006.

The joint EU-US Work Programme contains concrete activities in 11 areas to move forward the transatlantic economic integration. This report highlights the 11 areas, makes specific demands on several of them and calls, in line with the previous section, upon both partners to engage in a more ambitious process with a greater sense of direction, long term strategic objectives and a detailed timetable for the implementation of joint actions and projects. The

rappporteur believes that it is vital that this process takes into account the specific role of legislators and independent regulatory agencies, which convert legislation into regulation, implement the regulations, and supervise compliance. Agencies such as the Food and Drug Administration (FDA) or the SEC are not answerable to the priorities of the executive branch, but rather receive their mandate from legislators.

Differences are inherent in partnerships

Unsurprisingly, differences and trade or economic disputes are a natural component of the broad and deep transatlantic partnership. The key lies in not trying to avoid differences altogether but in learning to manage them properly, not allowing small or even big conflicts to interfere with the broader transatlantic agenda. After all, although WTO panels can provoke considerable political friction, trade or economic disputes, concern less than 2 % of exchanges.

Dispute settlement

The rapporteur also stresses that an increasing number of trade disputes relate to health, environmental or safety concerns. Some of these differences are in fact deeply rooted in distinct collective preferences and cultural peculiarities which have developed over two centuries and are unlikely to be eliminated by decree. While both the EU and the US have to ensure that such regulations are non-discriminatory, proportionate and science-based to prevent protectionist abuses, both sides must recognise that governments have a legitimate right to protect the health and environment of their citizens. A more pro-active regulatory dialogue could be one way to ensure that EU and US regulations – which often pursue similar health & environmental objectives – are also mutually supportive to trade.

As part of the proposed Transatlantic Partnership Agreement's economic chapter and in order to reduce the number of bilateral disputes that spill over onto the wider WTO arena, the rapporteur recommends the creation of a more formalised first-step bilateral trade dispute settlement mechanism that ensures contacts and strong political commitment to exhaust all bilateral diplomatic means before appealing to the WTO dispute settlement mechanism.

Early warning system

In a world where it is increasingly difficult to regulate one's own territory without affecting others' regulations, the ways and means to strengthen the "early warning mechanism" at both the regulator and legislator level should be further explored. Both ex-ante (alignment of future regulations) and ex-post (mutual recognition of existing regulations) are needed. The early warning system should be also increasingly instrumental in identifying at an early stage potential trade disputes.

IV. The Role of the European Parliament

While the tasks mapped out in the Summit Initiative concern the regulators first and foremost, achieving a fully integrated transatlantic market will require the active involvement of both sides' legislators.

In view of the regular review of the Initiative which is to take place at EU-US summits, it

seems obvious that legislators ought to have an increased input there. Besides achieving a sufficient level of parliamentary participation at EU-US summits, it is necessary to convene a meeting prior to every Summit between the TLD and the Senior-Level Group to exchange views on the progress of the Work Programme.