STATEMENT

On

THE U.S.-EU ECONOMIC RELATIONSHIP

before the

U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON FINANCIAL SERVICES

SUBCOMMITTEE ON DOMESTIC AND INTERNATIONAL MONETARY POLICY, TRADE AND TECHNOLOGY

for the

U.S. CHAMBER OF COMMERCE

By

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The U.S. Chamber is the world's largest business federation, representing more than three million businesses and professional organizations of every size, sector and region in the country, including American Chambers of Commerce in almost every country of the European Union (EU) and its wider neighborhood. Since tens of thousands of our member companies depend for their business on a strong economic relationship with the European Union, the U.S. Chamber has actively participated in the stakeholders' consultations on

EU-US commerce held by USTR[1] and the European Commission over the last several months. We have also supported our members in their participation in the Transatlantic Business Dialogue (TABD), which has become an indispensable institution in our bilateral relationship.

The Chamber welcomes this opportunity to present its views on U.S. economic relations with the European Union (EU) in the run-up to the U.S.-EU Summit next week. In anticipation of the Summit, the Chamber conducted its second survey of small and medium-size enterprises on their attitudes towards transatlantic business. A parallel survey in Europe was undertaken by the Association of European Chambers of Commerce and Industry, Eurochambres. The results of the surveys will be officially released June 20. I can already tell you that 72% of responding small enterprises want to do more business with Europe; our other finding this year is that the more experience with the EU market a company has, the more optimistic it is about its prospects for growing business. Unsurprisingly, small and medium-size companies point to regulatory difficulties across the Atlantic as a top constraint on their growth. Sincere efforts to reduce regulatory frictions will prompt our members to expand further in the EU market.

Distinctive features of the U.S.-EU marketplace

The U.S. economic relationship with the European Union is unlike any other we have in size, complexity and degree of integration. With a share of more

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[1] *See* U.S. Chamber of Commerce comments to the Office of the United States Trade Representative (USTR) on Enhancing the Transatlantic Economic Relationship, at http://www.uschamber.com/international/regional/europe/

than 50% of world trade (and 60% in trade in services), worth $500 billion a year, the U.S. and the EU have formed a highly integrated marketplace.

The recent wave of mergers and acquisitions has further blurred the line between American and European firms. Easy access to each other's capital has helped our members achieve higher economies of scale necessary to invest in further innovation and global competition. American and European companies can enter into alliances and mergers with such ease because we share similar expectations of corporate behavior, consumer patterns, and regulatory outcomes. The efforts under way to converge the accounting standards in U.S. and EU will go a long way towards gaining further efficiencies for our business with EU.

Over 20% of all U.S. exports of goods go to the EU-25, as compare to around 4% of exports that go to China. Importantly, EU is the buyer of our most value-added goods since European consumers have the purchasing power and demands very similar to American consumers, and their companies compete with ours through quality and innovation, not cheap labor. Over the last decade, U.S. subsidiaries of foreign companies spent over $30 billion on research in the United States and EU-owned firms spent most of this money.[2] Two-thirds of all U.S. corporate research and development conducted outside the United States is conducted in Europe. This depth of transatlantic business generates demand for every kind of financial service.

The result is a multi-trillion dollar market stretching from California to the western borders of Russia where consumers have largely similar expectations

[2] HEADLINE FACT SHEET, The Organization for International Investment, January 2003.

about the quality and price of goods, notions of fair play and effective governance. The high efficiency of the transatlantic market makes it very competitive and allows many of our members to keep high-paying jobs in this region and introduce their most innovative products and services in the transatlantic market. Any new friction in the market would be a disincentive to increased investment in either the U.S. or Europe.

At the same time, a friction-free market is yet to be attained. A number of recent studies, including OECD Working Paper No. 432 of May 26, 2005[3], show that regulatory divergence between the U.S. and EU costs the United States 1-3% of GDP per capita year after year. This is a lot of money that could be spent on improving the competitiveness of our economy and quality of life of our citizens.

We look to the upcoming U.S.-EU Summit to send a signal that political leaders put a high priority on preserving this amazing marketplace. We need the leaders to tell U.S. and EU regulators to stay in an on-going dialogue and keep lowering impediments to growth and job creation in the transatlantic market. We need our leaders to be ambitious and set longer-term goals for bilateral economic relations to cushion it against occasional collisions. If we allow the U.S. – EU relationship to stagnate or fall prey to the thousands cuts of fleeting misunderstandings, we would see a rapid divergence in regulations, destroy the appeal of the market to larger multinational companies and constrain the growth of SMEs.

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[3] ON THE BENEFITS OF LIBERALIZING PRODUCT MARKETS AND REDUCING BARRIERS TO INTERNATIONAL TRADE AND INVESTMENT: THE CASE OF THE UNITED STATES AND THE EUROPEAN UNION, OECD Economics Department Working Paper No. 432, ECO/WKP(2005)19.

The Changing U.S.-EU Regulatory Coordination

The major problems for U.S. business are not found at the borders. Since American companies see themselves very much as part of the European economy and vice versa, it is the EU and member state domestic regulations and public policies which concern us most of all.

As the European Union restructures itself and strives to respond to globalization and other challenges, it acquires new regulatory agencies and practices. We face similar challenges. If our regulators respond to the same set of challenges in a dramatically different way, companies will be caught in between, and will incur the unnecessary costs of two-track compliance. There are numerous examples one can cite to support the need for comprehensive regulatory cooperation: differences over accounting practices, shareholder notification requirements, introduction of genetically modified organisms, anti-trust procedures, personal data transmission, passenger lists, protection for computer-implemented inventions, chemicals safety policy, food labeling, data retention, accessibility of information technology to the disabled, automotive crash test modeling, etc. Each of these current or imminent divergences may spill over into politically-charged disputes and threaten the integrity of the single transatlantic market.

Chamber members believe that the existing U.S.-EU agreements and guidelines do not explicitly, or comprehensively, consider the transatlantic market as an integrated market, nor do they presently envisage the creation of a transatlantic economic community. The U.S. and the EU should overhaul their bilateral framework to acknowledge the critical importance of their commercial relations, and to include measures that would (a) safeguard the foundations of the transatlantic market, and (b) foster the long-term growth of the transatlantic economy.

These goals could be best achieved by negotiating a comprehensive U.S.-EU bilateral agreement on investment and regulatory cooperation. We are not suggesting that U.S.-and EU ignore the World Trade Organization. On the contrary, WTO has largely removed tariff negotiations from our bilateral agenda and allows us to move ahead recognizing the reality of a highly integrated transatlantic market. What we advocate is that the two sides identify the basic principles and building blocks of the ***process*** of modern regulatory activity and negotiate a foundational comity pact. Once such a pact is in place, U.S. and EU can pursue more specific regulatory cooperation.

The envisaged U.S.-EU agreement should stipulate that when regulating their respective markets, U.S. and EU regulators would:

(i) Assess ***transatlantic*** economic impact, for example by accepting each other's impact assessments and cost/benefit analysis of proposed regulations. This will require an agreement on methodology and some form of dispute resolution panel;

(ii) Study best practices in both the U.S. and the EU;

(iii) Apply the existing (but not mandatory) U.S.-EU Guidelines on Regulatory Cooperation and Transparency; and

(iv) Refer in regulatory practice to an agreed upon set of U.S., EU and international standards.

Conclusion

We should not assume that the setback suffered by the European constitutional reform means the demise of "Project Europe". The European Single Market remains as strong and attractive today as it was six months ago. The EU will continue, albeit at a slower pace, to devise new regulatory agencies and centers of regulatory power. Among the many new agencies in Europe currently at different stages of development are the European Food Safety Agency, Cyber Security Agency, European Environment Agency, Office for Harmonization in the Internal Market, Joint Research Centre and an inter-governmental defense procurement agency. It is in our enlightened self-interest to make sure that U.S. and EU regulators of the transatlantic marketplace coordinate their activities in a strategic, transparent, and efficient way. It would be particularly valuable to build strong linkages during the process of establishing new regulatory bodies in Europe. The existing U.S.-EU guidelines on Regulatory Cooperation of April 2002 seem to have produced limited results and are in need of being updated. The U.S. Congress will need to demonstrate leadership foresight and begin to legislate, and to exercise strong supervision of regulatory agencies, in such as way as to take into account the exciting realities of the transatlantic market.

The upcoming Summit can be a turning point in bilateral economic dialogue and proclaim the goal of dramatically reducing the regulatory cost of doing business in the transatlantic market.

That concludes my testimony. I will be happy to try to answer any questions you may have.