



“The US-EU Economic Relationship: What Comes Next?”

**Written Statement by
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Transatlantic Business Dialogue
to the
Subcommittee on Domestic and International Monetary Policy, Trade and
Technology
Committee on Financial Services
US House of Representatives**

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Good Afternoon. My name is Kathryn Hauser and I am the US Executive Director of the Transatlantic Business Dialogue. Thank you very much for the opportunity to appear before you today to share the views of the Transatlantic Business Dialogue on the question, “The US-EU Economic Relationship: What Comes Next?” This hearing is indeed timely, given the June 16-17 European Council meeting of EU heads of state or government in Brussels and the June 20 US-EU Summit meeting in Washington.

About the TABD

The TransAtlantic Business Dialogue is a group of chief executives from American and European companies operating in the United States, Europe and globally. Originally convened by the U.S. Department of Commerce and the European Commission in Seville in 1995 and relaunched in a new format in 2003, the TABD is a unique and effective mechanism for enhanced cooperation between the transatlantic business community and the governments of the US and EU.

TABD’s primary goal is to help establish a barrier free transatlantic market with the freest possible exchange of goods, services and capital. The TABD advocates global trade liberalization as a means to greater prosperity for all countries, which in turn will help stimulate innovation, investment, economic growth and job creation.

The TABD meets twice a year, during the World Economic Forum's annual meeting in Davos, Switzerland, and during the annual US-EU Summit. This weekend, more than twenty chief executives of leading American and European corporations participating in the TABD will meet with senior US and EU officials for the "dialogue" that is at the heart of what our organization is all about. Our CEOs will assess progress made since the 2004 Summit in Ireland, review the 2005 TABD recommendations presented to US and EU officials at the end of April, and consider action plans looking beyond this Summit and into next year.

Question 1: What issues does The Transatlantic Business Dialogue believe should be top priorities for the summit between the United States and the European Union this year?

We look forward to the US-EU Summit with optimism. The recommendations put forward by the TABD in April represent our response to the call from the 2004 US-EU Summit in Ireland for a "forward-looking strategy" for achieving transatlantic economic integration. This year's TABD recommendations cover the need for a comprehensive political framework and new approaches to regulatory cooperation to deepen transatlantic trade and investment while promoting innovation, competitiveness and job creation. In addition, we are looking for important steps towards more integrated capital markets and a better balance between maximizing trade while enhancing security, including additional flexibility in the granting of visas, particularly for frequent business travelers to the US from the EU. Similarly, a stepped-up commitment to joint actions in the areas of anti-counterfeiting and anti-piracy will, we believe, deliver more results than the separate initiatives currently being pursued by both governments. Finally, we offer our prescription for completing the Doha Round by the end of 2006.

For purposes of this hearing, I want to confine my remarks to two key TABD priorities for the US-EU Summit: 1) maximizing the US-EU Summit process to drive the transatlantic barrier-free market, and 2) improving regulatory cooperation as a path to innovation and growth, including steps to liberalize transatlantic capital markets.

1. Maximizing the US-EU Summit process to drive the transatlantic barrier-free market. At last year's US-EU Summit in Ireland, government leaders publicly recognized the crucial nature of the transatlantic economic partnership and issued a call to stakeholders to find ways to eliminate trade, regulatory and investment impediments to further economic integration. This high-level acknowledgement of the need to remove costly and unnecessary barriers – and the undermining effect they have on jobs, growth and innovation – was a welcome development. The TABD, and many others, have responded positively and constructively to the leaders' calls for practical ideas on how to create a more seamless economic partnership.

However, if the US and the EU are serious about meeting their own objectives, then the steps taken last year in Ireland must come to mark the beginning and not the end of high level political engagement in the pursuit of an integrated transatlantic marketplace. In particular, political leaders must now use the annual US-EU Summit itself as the key

driver for progress towards transatlantic economic integration. Nothing less, we believe, will provide the impetus needed to move this agenda forward.

Given the very broad and deep economic relationship between the United States and Europe, the effectiveness of the annual EU/US Summit process could be greatly increased if the leaders use these occasions as an opportunity to push for greater transatlantic co-operation and joint actions to expand trade, investment and innovation. The first step should be to define more clearly a strategic approach to transatlantic economic integration. We believe American and European political leaders need to take greater ownership of the process. Annual Summits should regard enhancing transatlantic economic integration as one of their primary tasks. The Summit Leaders should set priorities and multi-annual work programs, and actively monitor progress in order to provide political impetus for action whenever needed.

Consistent political drive and attention by the Leaders at the annual Summits can make it possible to clear away the non-tariff barriers and duplicative or divergent regulatory requirements that handicap transatlantic exchanges of goods, services and capital. These stand in the way of dynamic American and European companies wanting to expand their activities within the transatlantic market and dampen their capacity to innovate and create new, value-adding jobs. We propose to harness the political strength inherent in the annual US-EU Summits to move our economies ever closer to the barrier-free transatlantic market we proposed in 2004.

2. Improving Regulatory Cooperation as a Path to Innovation and Growth. TABD places regulatory co-operation at the very heart of its agenda, because the removal of regulatory obstacles is essential to achieving a barrier-free transatlantic market. Improved transatlantic regulatory co-operation, resulting in concrete actions to avoid duplicative and divergent policies, will make a decisive difference to overall trade and investment flows. We want to see more rapid and substantial progress than has been evident in recent years.

Despite years of effort by government officials, regulators and administrators on both sides of the Atlantic, transatlantic regulatory co-operation is still under-developed and falls far short of the impetus needed to substantially expand trade, investment and innovation. Initial steps have been taken with the adoption of the 1998 Guidelines for Regulatory Co-operation and the 2004 Roadmap for Regulatory Co-operation and Transparency, but there is no clear political “ownership” of the Guidelines or the Roadmap. This means there is no political drive pressing for results. Without clear lines of accountability, there is no mechanism for providing credit for success or criticism for failure or political imperatives for action.

From our business perspective, significant barriers still standing are in the areas of financial services and domestic standards and regulations. We applaud efforts of regulators in a few specific sectors (such as financial services, competition policy and pharmaceuticals) to initiate bilateral discussion of specific regulatory issues. Overall however, initiatives are often fragmented and lack transparency. There do not seem to be

any reporting requirements that would allow stakeholders and others to follow the process and submit informed opinions.

In spite of the many on-going regulatory dialogues, too often regulators develop and implement rules, regulations and requirements on business in relative isolation. Since regulators are subject to entirely separate legal mandates and legislative oversight, it is difficult for both business and administrations to ensure that their concerns are heard. We respect that sovereign prerogatives and legislative mandates must be taken into account, but we are concerned that, if regulations continue to be developed on both sides of the Atlantic without regard to the impact on the transatlantic market, divergent approaches will emerge which will negatively affect the ability of business to expand trade, investment and innovation. Recent regulatory actions (such as Sarbanes-Oxley in the US and the chemicals regulation in the EU) have highlighted the need for regulators and legislators to consider the external implications of their actions. It is vital to have a clear structure and process across the transatlantic regulatory landscape, not just in a few sectors.

We are also concerned that the current informal dialogues among regulators are taking place independently of one another and that there is no mechanism for sharing information among them. In addition, transatlantic regulatory co-operation has been hindered by its narrow focus on regulator-to-regulator dialogues and the exclusion of other stakeholders. One group with a key interest in regulatory matters, for example, are legislators on both sides of the Atlantic. They are not engaged in the various dialogues with regulators and much more needs to be done to raise their awareness of the economic importance of transatlantic trade and investment and the benefits of enhanced regulatory co-operation.

TABD believes that, without a clearly defined strategic approach to transatlantic regulatory co-operation, we will not achieve tangible results from the many initiatives underway. Therefore we propose the following:

A. Create a Transatlantic Regulatory Cooperation Forum. Our principal recommendation is to create a Transatlantic Regulatory Co-operation Forum to bring together American and European regulators, administrators and supervisors from sectors representing significant transatlantic trade and investment. We want to create an opportunity for regulators, administrators, and supervisors to discuss regulatory matters from a horizontal perspective and learn from one another about how they are dealing with common issues (e.g., treatment of confidential information, stakeholder outreach, transparency, etc.).

The guiding principle of the Forum should be “better regulation”. We believe a Transatlantic Regulatory Cooperation Forum will help regulators do their job more effectively; help the administrations ensure that the transatlantic regulatory environment contributes to increased trade, investment and innovation; help legislators provide meaningful oversight and enact balanced legislation; and help business expand, create jobs, and generate economic growth.

The forum should not be just another venue for dialogue. The Summit leaders should designate political-level officials from the Administration and the Commission to be responsible for managing and leading this initiative and reporting at the 2006 US-EU Summit on work undertaken and results achieved. We seek engagement at the highest levels across the regulatory agencies.

We believe business has an important role to play in facilitating and serving as a resource to the Forum. TABD is both ready and willing to work in close collaboration with the Summit Leaders and political officials responsible for the Forum.

The selection of regulators and administrators to participate in the Forum should be drawn from those where there is significant transatlantic engagement. As a start, we recommend inclusion of regulators from financial services, customs/homeland security, pharmaceuticals and environmental/chemical sectors.

The work program for the Transatlantic Regulatory Cooperation Forum should focus on steps to raise mutual trust and confidence among regulators, measures to avoid the creation of new barriers, and overall improved regulatory co-operation. TABD recommends work in the following areas:

1. Raising mutual trust and confidence among regulators
 - Provide political guidance and leadership, share information on collaborative activities and best practices across regulatory agencies.
 - Discuss confidentiality agreements currently in place across different sectors, such as the US-EU guidelines on product safety, FDA-EMEA agreements, and other agreements between regulators, to determine if there are lessons to be learned, common elements to be implemented by other sectors, and pitfalls to avoid. Identify other elements of regulatory co-operation to be built-out among regulators across sectors.
 - Share information on upcoming regulatory initiatives to provide “early warning” of regulatory changes likely to substantially affect transatlantic relations.
2. Avoiding the creation of new barriers
 - Create a template for common impact assessments, including cost-benefit analysis, to evaluate the potential effects of proposed regulations on the transatlantic market.
 - Discuss science-based approaches to rule making, such as risk assessment and risk management, with a view towards highlighting “ex-ante” divergences between US and EU regulators across business sectors.
3. Improving the level of engagement on regulatory co-operation
 - Report on the state of transatlantic regulatory co-operation to the annual US-EU Summits.

- Set specific objectives and priorities after wide consultation with stakeholders.
- Co-ordinate and drive sector-specific and horizontal dialogues.
- Initiate and co-ordinate a staff exchange program to provide work experience opportunities for experts on the other side of the Atlantic.
- Define appropriate role for legislators in the Forum.

B. TABD Priorities for Regulatory Cooperation. Regulatory issues feature significantly in our recommendations covering trade and security and financial markets. In widening and deepening transatlantic regulatory cooperation, we urge adoption of our priorities in these areas:

1. Trade and Security

- Establishment of a “preferred business traveler program” that would exempt European members of the business community from US visa requirements.
- Extension for one more year of the 26 October 2005 deadline for European Union members states to adopt biometric passports.
- Joint US-EU work to reach agreement on international standards for global commerce in areas such as sensor-networks to enhance cyber and physical security of the supply chain.

2. Financial Markets:

- Procedures for advance notification and discussion on regulatory proposals to avoid adverse implications on both sides of the Atlantic.
- Work towards convergence of regulation and supervisory practices so as to promote an increasingly homogeneous regulatory and supervisory framework.
- Identify an appropriate mechanism allowing insurance/reinsurance providers to offer their services and products on a transatlantic basis.

C. Encourage Legislators to Support Transatlantic Regulatory Cooperation. The last ten years of transatlantic co-operation have demonstrated both the technical and political difficulty of dismantling barriers to trade and investment. TABD believes that by encouraging Parliamentarians and Congressmen to see the real employment and wealth-creating benefits of greater transatlantic economic integration, they will become part of a process that will unlock regulatory reform. Enhanced regulatory co-operation will create a climate more favorable to job creation and investment. Governments should encourage:

- Congressional committees with oversight responsibilities for regulatory agencies to ensure that those agencies attach a priority to the successful removal of unnecessary barriers to transatlantic trade and investment.

- The Transatlantic Legislators Dialogue to regularly review horizontal and sectoral regulatory co-operation and to exercise pressure on the dialogues to produce results.
- Regular contacts between committee chairmen in the Congress and the European Parliament and other individuals with responsibilities touching on regulatory matters, particularly in key areas such as financial markets. Among other things, they should reinforce the annual U.S.-EU Summit's message that successful regulatory co-operation is an important political priority.

Question 2: Assessment of the progress being made by regulators in the Financial Markets Dialogue.

We understand that progress is being made by the regulators in the Financial Markets Dialogue and we commend the participants for engaging with one another on substantive issues through this mechanism. It has been the experience of TABD member companies, however, that information about the progress being made is difficult to obtain, particularly for those companies that are not in the financial services sector. While I am quite certain, that government officials in the US would answer any specific questions that might be posed by companies, the simple fact that the meetings of the Financial Markets Dialogue are not generally made known outside of the closed circle of participants makes it difficult for companies to know who to ask and what to ask about what is going on. Moreover, unless a company is from the financial services sector and has a clear understanding of the technical issues under discussion, it is difficult to get a sense of the pace of the discussions underway and an indication of the impact those discussions may have on a company's future business planning. The transatlantic business community would clearly benefit from greater transparency and information about the dialogues underway.

As an organization of American and European CEOs operating globally, the TABD is keenly aware that current fragmentation in capital markets adversely affects debt and equity markets, impedes financial service industry competition, contributes to a lack of credit rating transparency, and inhibits the ability of companies to access capital across markets. We believe dramatic improvements can be realized by eliminating duplicative or conflicting regulations and reforming transatlantic capital markets. In particular, the TABD supports work in three priority areas: the comparability of listing rules, measures to raise confidence in financial reporting, and increased cooperation in corporate governance.

Additionally, we believe that increased dialogue between key financial service legislators in Congress and the European Parliament should be an integral part of the ongoing US-EU dialogue on financial services, and contribute to a dialogue and exchange of information that would further develop the transatlantic capital market. The European Parliament's Economic and Monetary Affairs Committee, as well as this committee and the Senate Banking Committee, may be the groups from which to draw participation.

Question 3: What is your assessment of the recently announced convergence roadmap for accounting standards between the Securities and Exchange Commission and the European Commission?

We support the efforts of the SEC and the European Commission to bring to closure a long-standing issue facing the transatlantic business community. As we stated in our recommendations in 2004, TABD continues to support moves to:

- Promote adoption and implementation by 2007 of the vast majority of accounting standards upon which there is widespread agreement and where convergence can be easily achieved between the IASB and FASB¹ and identify as soon as possible the small minority of international accounting areas where differences between the U.S. and international standards cannot be narrowed in the short-term. The TABD urges that a work program be established with a clear timetable for resolving the outstanding issues and is concerned to ensure that the process does not become politicized.
- Address the need for appropriate arrangements to eliminate any requirements for reconciliation on foreign registrants who file on the basis of IFRS in the U.S., or U.S. GAAP in the EU, during the transition period in which we move to convergence.

Question 4: How will recent developments in the European Union, specifically the rejection of the constitutional treaty by French and Dutch voters, affect transatlantic integration trends, if at all?

The clear rejection of the EU's draft constitutional treaty by voters in France and the Netherlands is a setback for the cause of European *political integration* among the 25 Member States. Whether it will also become a setback for *transatlantic economic integration* remains to be seen. What is clear, however, is that a strong Europe working in partnership with the US is the *ONLY* way to create jobs, expand innovation, improve the competitiveness of European and America firms, and secure global economic stability and development. We have no choice but to forge ahead and to continue to build the barrier-free transatlantic market.

This is why the TABD is emphasizing the critical importance of restoring economic cooperation to a central role on the Summit agenda. We need more engagement –at all levels and among the full panoply of government agencies -- to prompt more cooperative actions by officials jointly across the Atlantic. We endorse the idea of holding a mid-year economic-focused meeting at the sub-cabinet level to ensure that high-level dialogue

¹ These should not only concentrate on convergence arrangements but also address the backlog of existing standards and develop new standards, building on the current IASB/FASB collective approach to business combinations, revenue recognition and comprehensive income.

continues, progress is made on the specific issues contained in the expected Summit Declaration, and new issues can be anticipated.

In addition, we believe it is imperative that the two governments renew their commitment to building closer regulatory cooperation as the principal means of maximizing the flow of goods, services and capital across the Atlantic. While our markets are the largest in the world, accounting for a third of global trade and 20% of foreign investment, we must ensure that they continue to grow and prosper by eliminating duplicative costs and streamlining regulatory burdens.

While I do not intend to minimize the seriousness of the political issues facing the European Union, I believe it is also important to remind ourselves just how strong and vibrant our economic relationship really is. Total transatlantic commercial exchanges are significant: \$2.5 trillion in 2003, generating \$77.1 billion in earnings for US affiliates in Europe and \$46.4 billion for European affiliates in the US. In 2003, total US investment in Europe was \$800 billion and total European investment in the US was more than \$1 trillion. Significant job creation was generated by this investment: 4.2 million in the US in European affiliates and 3.2 million in the EU employed by US affiliates.

As impressive as these figures are, we cannot take for granted that they will continue – given the pressures of the global market – unless we redouble our joint efforts to achieve a barrier-free transatlantic market. Joint work must take place on multiple levels in multiple spheres if we are to achieve the kind of tangible regulatory reforms – both quantitative and qualitative -- that will enable companies to create the new jobs, innovate new technologies, bring new products and services to market, and expand economic opportunities for all citizens. We need to see collaboration take place not only among the administrations in Europe and the US, but also among regulatory and supervisory authorities, and Congress and the European Parliament.

We are optimistic that the Summit Leaders will issue a strong statement in support of further transatlantic economic integration at their Summit meeting on June 20th, picking up many of the recommendations set forth by the CEOs of the TABD. We look forward to engaging more directly with this Subcommittee in the future as we continue our work towards a barrier-free transatlantic market.

Thank you.

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Kathryn Hauser is the U.S. Executive Director of the Trans-Atlantic Business Dialogue, an organization of chief executive officers from American and European businesses working together with government leaders to improve the transatlantic relationship.

Prior to assuming her current position in February 2005, Ms. Hauser was Associate Vice President for International Regulatory Affairs for the Pharmaceutical Research and Manufacturers of America. She was responsible for developing and executing strategies to achieve regulatory reform and address burdensome regulations in foreign markets.

From 1998 to 2003, Ms. Hauser was Senior Vice President of the Information Technology Industry Council, which represents the major information technology companies. She represented the association's global technology and trade agenda before Congress, the Executive Branch and international organizations. She also served as the association's Secretary and Treasurer and had overall responsibility for the \$5 million annual budget, membership, and daily operations of the 27 member staff.

From 1994 to 1998, Ms. Hauser was co-founder and partner in two successive financial advisory and investment firms, East Wind Partners and Millennium Capital Development. She provided strategic, communications and business planning advice for startup ventures focused on infrastructure projects in emerging markets.

Ms. Hauser was the Executive Director of International Affairs for Bell Atlantic Corporation (now known as Verizon) between 1987 and 1993. She launched the corporation's international government affairs function, opened the company's office in Brussels, served as Vice Chair of the Telecommunications Task Force of the U.S. Chamber of Commerce, and played a principal role on numerous bids and acquisitions.

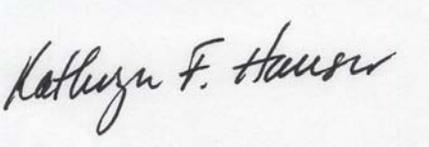
Ms. Hauser served in the Office of the U.S. Trade Representation between 1979 and 1987. Her final post was Deputy Assistant USTR for Multilateral Negotiations where she was responsible for US preparations for the Uruguay Round of multilateral trade negotiations. She also was assigned to the Senate Finance Committee Trade Subcommittee to help prepare the implementing legislation, the Trade Act of 1988, and manage outreach to the business community.

Ms. Hauser holds a Bachelor of Arts degree from the University of Southern California and a Master's degree from Columbia University.

United States House of Representatives
Committee on Financial Services

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Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name: Kathryn F. Hauser	2. Organization or organizations you are representing: Transatlantic Business Dialogue (TABD)
3. Business Address and telephone number: Transatlantic Business Dialogue c/o Center for Strategic and International Studies 1800 K Street, NW –4 th floor Washington, DC 20006 Tel: 202-775-3269	
4. Have <u>you</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2004 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	5. Have any of the <u>organizations you are representing</u> received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2004 related to the subject on which you have been invited to testify? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
6. If you answered “yes” to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
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