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STRENGTHENING THE TRANSATLANTIC ECONOMY: MOVING BEYOND THE CRISIS

HEARING

BEFORE THE

SUBCOMMITTEE ON EUROPEAN AFFAIRS

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CONTENTS

STRENGTHENING THE TRANSATLANTIC ECONOMY: MOVING BEYOND THE CRISIS

WEDNESDAY, DECEMBER 9, 2009

U.S. SENATE,
SUBCOMMITTEE ON EUROPEAN AFFAIRS,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:30 p.m., in room SD–419, Dirksen Senate Office Building, Hon. Jeanne Shaheen (chairman of the subcommittee) presiding.

Present: Senators Shaheen and Risch.

OPENING STATEMENT OF HON. JEANNE SHAHEEN, U.S. SENATOR FROM NEW HAMPSHIRE

Senator SHAHEEN. Good afternoon, everyone. We will begin in hopes that we can get through a major portion of this afternoon's hearing before we have any votes.

So, and we also very much appreciate Secretary Hormats being here. We know that you have a tight schedule. So we will get underway right away.

And I have an abbreviated statement, but we will file the complete one for the record.

So the Senate Foreign Relations Subcommittee on European Affairs meets today to examine the economic, trade, and investment ties between the United States and Europe and to assess opportunities for further integration, expansion, and deepening of this critical partnership.

I want to welcome all of you here today. We have two impressive panels, and we look forward to hearing from our witnesses and engaging them in dialogue on this important relationship.

Today, we are nearly 2 years into the worst economic downturn certainly of my generation. Though we have begun to see some positive signs, unemployment remains much too high, and growth is still too stagnant.

We need to find additional ways to encourage investment and create jobs here at home. As the global economy begins to rebalance and the American consumer can no longer represent the sole engine of growth, U.S. businesses will need to look overseas for markets and investment.

Understandably, much of global attention has turned to the rapidly developing economies like China, India, and Brazil. And it is easy to forget that, by far, America's largest, most vibrant, and perhaps its most critical economic relationship is actually with

Europe. It would be a mistake to neglect this crucial partnership as we attempt to dig ourselves out of this economic downturn.

The numbers really do speak for themselves. Representing over 800 million people, the combined economies of the United States and Europe generate a gross domestic product of $32.7 trillion, which accounts for over 50 percent of the world's GDP.

As Governor of New Hampshire, I was able to witness firsthand the critical nature of the transatlantic relationship to communities and businesses throughout my State. I was the first Governor to lead a trade delegation outside of North America.

We traveled to England, Ireland, Germany, and Denmark on missions which generated millions of dollars for New Hampshire businesses. And we went to Europe because what we heard from New Hampshire businesses was that is where the markets were.

In 2007, Europeans bought nearly 1 billion dollars' worth of goods from businesses in my home State of New Hampshire, and today, European countries represent 6 of the top 10 overseas markets for New Hampshire goods. Obviously, I think what happened in New Hampshire and what is good for New Hampshire is good for the rest of the country.

It is not only goods and services crossing the ocean, it is also investment dollars. For every $1 in goods traded across the Atlantic, nearly $4 are invested between the United States and Europe. Of the $5.2 billion invested in New Hampshire in 2006, $3.6 billion came from Europe.

Investment dollars from Europe means jobs right here in New Hampshire and in the United States. European investment supports tens of thousands of jobs in my home State, and an estimated 7 million Americans countrywide are employed by businesses affiliated with Europe.

So it is easy to see why the transatlantic economy has been the anchor for global economic stability for so many years. However, like any partnership that wants to remain relevant to a rapidly changing world, we need to continue to foster and adapt our relationship to meet present-day realities. We can't take this relationship for granted or allow it to coast on autopilot.

There are a number of areas where we can work to improve integration and foster continued growth. First, as integrated as our two economies are, there are still significant barriers to businesses gaining access to overseas markets.

Nearly 95 percent of the world's customers are outside of the country, but less than 1 percent of small- and medium-sized businesses export to those markets. We need to improve this imbalance and do a better job of helping small businesses gain access to markets in Europe and elsewhere.

In addition, we need to make sure we are better organized and coordinated at the Government level to help our businesses compete abroad. We can also do more to revitalize the Transatlantic Economic Council and try to harmonize the differences in regulatory policies across the Atlantic in support of American businesses.

Finally, as we continue to assist our businesses in gaining access and investment overseas, we also need to do a better job of enforcing our trade rules. The violation of trade agreements from either side of the Atlantic hurts profits, hinders growth, and adds to skepticism of the benefits of free trade.

At a time of ongoing economic uncertainty and significant unemployment, it is critical that the United States seek ways to expand and strengthen its economic relationship with Europe. These ties will be critical to further prosperity, profit, job growth, and jobs on both sides of the Atlantic.

[The prepared statement of Senator Shaheen follows:]

PREPARED STATEMENT OF HON. JEANNE SHAHEEN, U.S. SENATOR FROM NEW HAMPSHIRE

The Senate Foreign Relations Subcommittee on European Affairs meets today to examine the economic, trade, and investment ties between the United States and Europe and to assess opportunities for further integration, expansion, and deepening of this critical partnership. I want to welcome all of you here today. We have two impressive panels, and we look forward to hearing from our witnesses and engaging them in dialogue on this important relationship.

Today, we are nearly 2 years into the worst economic downturn of our generation. Though we have begun to see some positive signs, unemployment remains much too high and growth is stagnant. We need to find additional ways to encourage investment and create jobs here at home. As the global economy begins to rebalance and the American consumer can no longer represent the sole engine of growth, U.S. businesses will need to look overseas for markets and investment.

Understandably, much of global attention has turned to the rapidly developing economies, like China, India, and Brazil. It is easy to forget that, by far, America's largest, most vibrant, and perhaps its most critical economic relationship is actually with Europe. It would be a mistake to neglect this crucial partnership as we attempt to dig ourselves out of this economic downturn.

The numbers really do speak for themselves. Representing over 800 million people, the combined economies of the United States and Europe generate a GDP of $32.7 trillion—which accounts for over 50 percent of the world's GDP. Both the United States and Europe represent each other's largest trading partners, and total trade between the two, which now stands at over $600 billion per year, represents an astounding 33 percent of the global trade volume.

As Governor of New Hampshire, I was able to witness firsthand the critical nature of the transatlantic relationship to communities and businesses throughout my State. I was the first New Hampshire Governor to lead a trade delegation outside of North America. Searching for new and expanded markets, we immediately looked to our friends across the Atlantic. I traveled to England, Ireland, Germany, and Denmark on missions which generated millions of dollars for New Hampshire businesses. In 2007, Europeans bought nearly 1 billion dollars' worth of goods from businesses in my State, and European countries represent 6 of the top 10 overseas markets for New Hampshire goods.

It is not only goods and services crossing the ocean, it is also investment dollars. For every $1 in goods traded across the Atlantic, nearly $4 are invested between the United States and Europe. Transatlantic investment dollars totaled over $3 trillion in 2008 with Europe investing nearly $1.4 trillion here in the United States. Of the $5.2 billion invested in New Hampshire in 2006, $3.6 billion came from Europe. Investment dollars from Europe means jobs right here in the United States. European investment supports tens of thousands of jobs in the State of New Hampshire, and an estimated 7 million Americans countrywide are employed by businesses affiliated with Europe. The volume of goods, services, and investment dollars crossing the Atlantic lead to job creation, profit growth, and economic prosperity on both sides of the ocean.

It is easy to see why the transatlantic economy has been the anchor for global economic stability for so many years. The United States and Europe share an economic and trade system based on common values, the protection of intellectual property, and a commitment to the rule of law. However, like any partnership that wants to remain relevant to a rapidly changing world, we need to continue to foster and adapt our relationship to meet present-day realities. We cannot take this relationship for granted or allow it to coast on auto-pilot. There are a number of areas where we can work to improve integration and foster continued growth.

First, as integrated as our two economies are, there are still significant barriers to businesses gaining access to overseas markets. Nearly 95 percent of the world's customers are outside the country, but less than 1 percent of small businesses export to those markets. We need to improve this imbalance and do a better job of helping small businesses which are responsible for half of all American jobs in the private sector—to gain access to markets in Europe and elsewhere.

In addition, we need to make sure we are better organized and coordinated in helping our businesses compete abroad. Currently as many as 20 agencies are involved in trade and export promotion in the U.S. Government, and we will need a more integrated, governmentwide approach if we are to meet the needs of our businesses as they compete in Europe and beyond.

Because tariffs remain low between the United States and Europe, costly regulatory differences are widely recognized as the more significant barriers to further integration and growth. We can do more to try to harmonize the differences in regulatory policies across the Atlantic in support of American businesses. A revitalization of the Transatlantic Economic Council and a focus on future regulatory issues before they become trade impediments can help spur integration and promote business growth.

Finally, as we continue to assist our businesses in gaining access and investment overseas, we also need to do a better job of enforcing our trade rules. Though it is said that trade disputes between the United States and Europe make up only 2 percent of commercial transactions, it is important that we maintain and enforce, where necessary, a commitment to a rules-based commercial relationship. The violation of trade agreements—from either side of the Atlantic—hurts profits, hinders growth, and adds to skepticism of the benefits of free trade.

At a time of ongoing economic uncertainty and significant unemployment, it is critical that the United States seek ways to expand and strengthen its economic relationship with Europe. As the largest, most vibrant trade relationship in the world, the economic, financial, and investment ties between the United States and Europe continue to be critical to prosperity, profit, job growth, and jobs on both sides of the Atlantic.

We are pleased to have before us today two distinguished, high-level panels to discuss these critical issues. I shall reserve my introductions for the second panel until later. On our first panel, we have the Honorable Robert Hormats, the current Under Secretary for Economic, Energy, and Agricultural Affairs.

Under Secretary Hormats is the senior economic official at the State Department and is responsible for formulating, coordinating, and implementing international economic policies aimed at protecting and advancing U.S. economic, political, and security interests. He participates in international trade negotiations, supports U.S. business in foreign countries, and participates in formulating U.S. international sanctions.

Under Secretary Hormats has a long, distinguished career in the public and private sectors. Formerly a vice chairman at Goldman Sachs, he has also served throughout government in a variety of senior positions at the State Department, the Office of the U.S. Trade Representative, and at the National Security Council, where he was senior economic advisor to Dr. Henry Kissinger, General Brent Scowcroft, and Dr. Zbigniew Brzezinski.

He is well placed to give us the government's views with respect to the transatlantic economic relationship, and we are pleased to welcome him here today.

Senator SHAHEEN. Now, as I said, we have two panels today before us, and we are very pleased to have such distinguished representatives on each of those panels. I want to reserve my introductions of the second panel for later because, as I have said, we know that Secretary Hormats, who is currently the Under Secretary for Economic, Energy, and Agricultural Affairs at the State Department, has to leave. And we want to make sure we get his testimony in and have the opportunity to have a real dialogue.

Under Secretary Hormats is the senior economic official at the State Department. He is responsible for formulating, coordinating, and implementing international economic policies. Secretary Hormats has a long, distinguished career in the public and private sectors. Formerly a vice chairman at Goldman Sachs, he has also served throughout Government in a variety of senior positions at the State Department, the Office of the U.S. Trade Representative, and at the National Security Council, where he was senior economic adviser to Dr. Henry Kissinger.

He is well placed to give us the Government's views with respect to the transatlantic economic relationship, and we are so pleased you could join us today.

Thank you very much for being here. I will turn the floor over to you.

STATEMENT OF HON. ROBERT HORMATS, UNDER SECRETARY OF STATE FOR ECONOMIC, ENERGY, AND AGRICULTURAL AFFAIRS, DEPARTMENT OF STATE, WASHINGTON, DC

Dr. HORMATS. Thank you very much, Madam Chair, for your very kind introduction and for inviting me here to testify on this extremely important subject.

In September, I appeared before the full committee in conjunction with my nomination, and I am very grateful for the consideration that you and your colleagues showed me during the nomination process. I am honored by the trust that President Obama, Secretary Clinton, and the Senate have placed in me in giving me and providing me with this opportunity to serve our Government.

I am very pleased to appear here today to highlight our relationship with Europe as a key part of a robust global economy. As you emphasized, this is an extremely important economic relationship, and sometimes, with all the conversations about China and the BRICs and other countries, we tend to underestimate the importance of Europe. And I think in your introductory remarks, you have emphasized that point very strongly and very correctly that Europe is a huge market, the biggest by far, for American products and a big source of investment for New Hampshire and virtually every other major State in our country.

And I would like to focus in my testimony on the importance of our economic relationship with Europe and the potential that the administration sees in using that relationship to boost America's international competitive strength and create jobs in the United States.

The European economic relationship is really today one of the central drivers of the world economy. To put it in perspective—and you have done so with a number of very important statistics, and let me just add a few thoughts to complement what you have said. The value of United States goods and services exported to the EU is over five times the value of our exports to China.

From 2000 to 2009, in contrast, over half of the total of United States foreign direct investment was in Europe, while the stock of United States foreign direct investment in Brazil, Russia, India, and China, the so-called BRICs, combined in 2008 amounted to only 7 percent of total United States investment stock in the EU.

So the proportion of our trade and the proportion of our foreign investment that is in the EU is enormous compared to all the rest of the world. And even when you add all the BRICs together, the numbers vis-a-vis Europe are considerably greater.

As a further illustration, the existing stock of United States foreign direct investment in Ireland alone of $146 billion in 2008 was more than double the total United States investment stake in Russia, India, and China combined, which was $71 billion. In little Ireland, it is bigger than the stock of investment in all those countries.

These percentages and figures are likely to change as the economies of the BRICs grow and as their role in the world commerce increases. But for the moment and for some time to come, they will underscore the enormous economic importance of Europe to the United States—to American jobs, exports, profits, and overall prosperity.

Europe is the most important foreign source of jobs in the United States. In 2007, European-owned firms employed roughly two-thirds of the 5.5 million United States workers on the payrolls of all foreign firms operating in the United States combined. In fact, the majority of foreigners working for European-owned companies outside of the EU are Americans.

Many corporate brands that Americans hold in high esteem are European-owned. How many Americans know, for instance, that Ben and Jerry's ice cream and Dove soap are owned by Unilever, a U.K. firm? And many United States brands are highly popular in Europe. Starbucks, for instance, has more outlets in London than in Manhattan. As a New Yorker, I am surprised to hear that, but apparently, that is the case.

We need to build on this strong transatlantic foundation, given the importance of transatlantic trade and investment in supporting high-quality jobs in the United States. I cannot emphasize enough, as you have done in your opening statement, the importance of making further efforts to remove barriers to trade and investment between the United States and Europe. We are doing this in several ways.

First, achieving a successful outcome in the WTO's Doha Round remains a top priority for this administration. Multilateral liberalization makes sense and can produce huge dividends for the United States.

Second, the United States has every interest in promoting strong market-based, rules-based approaches to economic policies in third countries, including in particular Russia, China, Brazil, and India, which are among the world's fastest-growing economies.

The United States and Europe can both benefit if we work together to promote the adoption of market principles worldwide. A perfect example of the potential for EU–U.S. collaboration in third countries is the joint effort the United States and the European Union have undertaken to help China improve the quality of the toys and other products it exports, which is essential to the health and safety of our consumers in this country.

The U.S.–EU Investment Dialogue, chaired by Treasury and our IPR Enforcement Working Group, are other examples of our joint work to promote better policies in third countries.

Third, in the bilateral economic relationship that we enjoy, over the past 3 years, we have coordinated important parts of our agenda with the EU through the Cabinet-level Transatlantic Economic Council, the so-called TEC. The Transatlantic Economic Council provides a way for our most senior economic policymakers to cooperate and engage in joint work on regulation, investment, intellectual property protection, innovation, trade, and security.

The United States and the EU account for 40 percent of world trade. Within this massive market, regulatory divergences between the United States and Europe are the main impediments to increased transatlantic economic commerce.

One way we are seeking to minimize the impact of regulatory divergences on trade and investment is to examine closely our respective approaches to regulation. A core function of the Transatlantic Economic Council is to encourage our regulatory agencies to collaborate when possible.

While differences in perspective and regulatory processes will never be completely overcome, at this time when we most need innovation, we should be ready to rely on each other for ideas to address common problems.

Looking forward, we will be sharpening our focus on such critical emerging sectors as nanotechnology and e-health. As we work on the bilateral relationship, we have recently been observing significant institutional changes on the European side. I would like to highlight several areas for you that could impact on the way we do business on economic matters.

First, the December 1 entry-into-force of the Lisbon treaty has given the EU a permanent President of the European Council, as well as a High Representative for Foreign Affairs and Security Policy. Additionally, the European Parliament has received increased powers under the Lisbon treaty in setting the EU budget, in agricultural supports, and the exercise of new parliamentary authority to approve or disapprove trade agreements.

In so many of these areas impacted by the Lisbon treaty, the relationships and the dynamics are being rewritten by the EU as we speak. But the clear message of these changes is that we will need to increase our engagement—both we in the administration and U.S. legislators—with the EU's elected legislators.

There is another institutional point worth noting. Despite the changes I have described Member States' influence will remain strong. While the Lisbon treaty has given agenda-setting of EU meetings on foreign security affairs to the High Representative, Catherine Ashton—the nation holding the EU Presidency, which rotates every 6 months, will continue to lead EU meetings of, for instance, Ministers of Energy, Environment, and Agriculture.

The influence of the Member States in economic policymaking will, therefore, remain strong. Those who would seek to influence developments in the EU and the dialogue with the EU—such as the distinguished Senators on this subcommittee and those of us in the administration—will continue to find the best results by engaging with the EU on all channels, through the EU's high-level officials, through Member States, through the commission, and with Members of the European Parliament.

A final institutional factor under Lisbon that will have significant influence is the following. While the EU Member States may transfer some authorities to the commission, they will still have strong incentives to determine policies affecting their own national firms. You may recall that the shift of competence over trade policy to the commission led to a long and difficult set of bilateral negotiations regarding compensation over lost tariff advantages as the EU consolidated its tariff schedule.

The transatlantic investment relationship is a good example of an area where this shift of authority onto Brussels could have significant consequences. The transatlantic investment relationship, as you pointed out in your opening statement, is enormous. It is currently valued at over $3 trillion, and its impact on trade flows is evident from the fact that so much U.S.–EU trade is intra-firm trade. Investor protections and openness on both sides are generally high, but the relationship is based on legal commitments with the Member States in the OECD as well as an incomplete network of treaties of friendship, navigation, and commerce and bilateral investment treaties.

With greater competence now moving to the EU, we will want to work with both Member States and the commission to ensure that our investment relations, the foundation of the transatlantic economy, remain strong. This last point on transatlantic investment is perhaps the most important, and you have emphasized it quite correctly in your opening statement.

We need to continue to look at what we do next not just to continue, but to strengthen transatlantic investment flows. Quite simply, additional investment between the United States and Europe means additional high-quality, high-paying jobs for many Americans.

I thank you again, Madam Chair and members of the subcommittee, for the opportunity to appear before you on this subject. And I very much look forward to answering your questions on this important topic.

Thank you again.

[The prepared statement of Dr. Hormats follows:]

PREPARED STATEMENT OF HON. ROBERT D. HORMATS, UNDER SECRETARY OF STATE, ECONOMIC, ENERGY AND AGRICULTURAL AFFAIRS, DEPARTMENT OF STATE, WASHINGTON, DC

Madame Chair, Senator DeMint, and members of the Senate Foreign Relations Committee's Subcommittee on European Affairs. Thank you for inviting me to testify today on this important subject. In September I appeared before the full committee in conjunction with my nomination as President Obama's Under Secretary of State for Economic, Energy, and Agricultural Affairs. I am grateful for the consideration the committee and the Senate showed me during the nomination process. And I am honored by the trust the President, Secretary Clinton, and the Senate have placed in me in my new position.

I am very pleased to appear here today to highlight our relationship with Europe as a key part of our shared interest in a robust global economy.

In my remarks today, I'd like to focus on the importance of our economic relationship with Europe and the potential the administration sees in using that relationship to boost America's international competitiveness and create jobs in the United States. Enhancing our trading relationship with Europe is one way to do this. Attracting more foreign investment—which can produce high-quality jobs and bring us new technologies—is another. We look forward to continued cooperation with the Congress, our national Governors and Mayors, and the private sector as we realize these goals.

THE U.S.–EU ECONOMIC RELATIONSHIP

The U.S.-European economic relationship is one of the central drivers of the world economy. To put it in perspective, the value of U.S. goods and services exports to the EU is over five times the value of our exports to China. From 2000 to 2009, over half of total U.S. foreign direct investment (FDI) was in Europe. The stock of U.S. FDI in Brazil, Russia, India, and China (the BRICs) combined in 2008 accounted for only 7 percent of the total U.S. investment stock in the EU.

As a further illustration, the existing stock of U.S. FDI in Ireland alone of $146 billion in 2008 was more than double the total U.S. investment stake in Russia, India, and China combined ($71 billion). These percentages and figures are likely to change as the economies of the BRICS and other emerging economies grow and as their role in the world commerce increases. But for the moment and for some time to come, they will underscore the enormous economic importance of Europe to the United States—to American jobs, exports, profits, and overall prosperity.

Europe is the most important "foreign source" of jobs in America. European-owned firms in 2007 employed roughly two-thirds of the 5.5 million U.S. workers on the payrolls of all foreign firms operating in the United States combined. In fact, the majority of foreigners working for European-owned companies outside of the EU are Americans.

Many corporate brands that Americans hold in high esteem are European-owned. How many Americans know, for instance, that, Ben and Jerry's ice cream and Dove soap, for example, are owned by Unilever, a U.K. firm? And many U.S. brands are, of course, hugely popular in Europe. Starbucks, for example, has more outlets in London than in Manhattan.

We need to build on this strong transatlantic foundation as we continue to construct new international economic rules and architecture to meet today's challenges. This is why my colleagues and I in the administration intend to take a very hands-on approach to developing our economic relationship with Europe and with the EU in particular.

THE POTENTIAL OF THE TRANSATLANTIC ECONOMIC RELATIONSHIP

Given the importance of transatlantic trade and investment in supporting high-quality jobs in the United States, I cannot emphasize enough the importance of making further efforts to remove barriers to commerce between the United States and Europe. And this is not only in America's interest—it is in Europe's as well.

The United States and European Union need to work together on a number of levels—in spurring multilateral liberalization in our globalized world; promoting good economic policies in third countries, especially the major emerging economies; and of course, in strengthening our bilateral relationship.

Multilateral Liberalization

Achieving a successful outcome in the WTO's Doha Round remains a top priority for this administration. Multilateral liberalization makes sense. The United States and the EU have relatively open markets—we want other markets to be more open as well. And the most efficient way to achieve this is through the WTO. We need the Europeans to help us promote an ambitious, balanced conclusion to the WTO talks.

Similarly, we want to work with our European partners and the European Union on numerous other multilateral fronts: from devising a new global financial regulatory and supervisory structure through the G20 and Financial Stability Board, to promoting effective development assistance with the EU as the world's largest donor, to improving supply chain security through the World Customs Organization. And as the climate change talks now going on in Copenhagen underscore, it is incumbent upon us to find common ground with our European partners.

Third Countries

Even as we focus on achieving strong multilateral results, the United States and the European Union have every interest in promoting strong market-based, rules-based approaches to economic policies in third countries, including in particular Russia, China, Brazil, and India.

The United States and Europe can both benefit if we work together to promote the adoption of market principles worldwide. Better economic policies in third countries will raise growth and increase the openness needed to generate U.S. exports and U.S. jobs. A perfect example of the potential for U.S.–EU collaboration in third countries is the joint effort the United States and EU have undertaken to help China improve the quality of the toys and other products it exports, which is essential to the health and safety of our consumers. The U.S.–EU Investment Dialogue, chaired by Treasury, and our IPR Enforcement Working Group are other examples of our joint work to promote better policies in third countries.

Our work with third countries is most important in the case of Russia, from which I just returned last Thursday. Russia has made the transition to capitalism. But there is still significant state intervention in the economy and other major distortions. It is in our interest for Russia to be a prosperous economic partner and an active stakeholder in a rules-based international trading system. Negotiations have been underway for some time to enable it to join the WTO, and the pace of those negotiations remains in Russia's hands. Success in those negotiations, leading to Russia's membership, would enhance the international flow of goods, farm products, and services, to the benefit of Americans, Russians as well as other Europeans. To attract the investment Russia needs to diversify and grow its economy, Russia needs to make important improvements in its economic regime. It is in our interest to see Russia succeed. Russian prosperity will not only improve the lives of millions of Russians; it will also be good for American trade and therefore for U.S. jobs.

We want to work with Russia to support reforms, promoting the developing middle class and entrepreneurs. We also want effective protection of intellectual property rights that do not disadvantage American and foreign products and manufactured goods, and science-based sanitary and phyto-sanitary rules that are consistent with international standards and do not unfairly impede imports of U.S. farm products. Many American companies are doing very well in Russia and we want more to do so—supporting our prosperity and Russia's as well. And many Russian companies are doing very well in the United States. We seek a level playing field for both—to our mutual benefit and to expand mutual commerce and investment. Our goal is a win-win situation where Americans and Russians see closer economic ties with one another as beneficial to one another. The Bilateral Presidential Commission established by Presidents Obama and Medvedev is intended to achieve that.

Europe depends on Russia for a significant amount of its energy imports, while Russia derives much of its budget revenues from energy sales to the West. This is an important relationship to which I know this committee pays close attention. We want to work with all parties to promote energy security. As part of this effort, we strongly support greater interconnection among European countries, increased storage facilities, as well as alternative supplies of gas to Europe, and are working actively to help Europe to diversify its supplies. Senator Lugar has spoken particularly strongly and effectively about this topic as have others on this subcommittee. We welcomed the recent EU-Russia agreement to establish an early warning mechanism on supply disruptions. Our shared concern on energy security was one of the key reasons the United States and the EU established the U.S.-EU Energy Council, cochaired on the U.S. side by Secretaries Clinton and Chu, at last month's summit. Ambassador Richard Morningstar is actively engaged with his European counterparts to promote our common objectives in this area. He also cochairs a U.S.-Russia subworking group focused on energy security issues.

We need to work with Europe and the European Union to promote private sector engagement in countries like Iraq and Afghanistan. Both sides of the Atlantic have a direct interest in the development of stable and prosperous societies in these countries. This will come only with economic growth, which in turn will depend in large part on private sector engagement through trade and investment relationships. The United States and Europe are both doing many things to promote trade and investment ties with Iraq and Afghanistan. This includes, for instance, the EU's recent negotiations toward a Partnership Agreement with Iraq and substantial aid to Afghanistan. But we can all do more.

The Bilateral Economic Relationship

As I noted at the beginning of my remarks, the transatlantic economic relationship is our deepest and broadest by far. Given the absolute size of our relationship, even small gains in any sector can mean significant improvements in the lives of our workers.

For this reason the administration is focusing on things that can be done to strengthen transatlantic economic ties. In the past 3 years, we have coordinated important parts of our bilateral economic agenda with the EU through the Cabinet-level Transatlantic Economic Council, the "TEC." The Transatlantic Economic Council provides a way for our most senior economic policymakers to cooperate and engage in joint work on regulation, investment, intellectual property protection, innovation, and trade and security.

Similarly, given that services account for nearly 70 percent of economic activity in both the United States and Europe, we are searching for ways to break down transatlantic barriers in this area. Different approaches to financial regulation, and "incipient mercantilism," could have huge deleterious consequences for us both. Treasury, the SEC, and our other regulators are actively using the U.S.–EU Financial Markets Regulatory Dialogue to find a way to avoid this.

By many accounts, the most significant obstacles to trade between the United States and Europe are largely the result of regulatory divergences. Regulators in both Europe and the United States aim essentially for the same results—strong protections for the health and safety of our citizens, for our environment, and for our financial system. The EU has sometimes imposed non-science-based measures on U.S. agricultural and industrial exports, such as the bans on the use of growth hormones in beef and pathogen reduction treatments for poultry, restrictions on the cultivation and marketing of biotech products, and various labeling schemes. We will continue to support the efforts of USTR, USDA, and the Department of Commerce to encourage the EU to remove these barriers to trade. It is important to ensure that in achieving their regulatory goals the EU not also impose arbitrary barriers or fail to comply with its international obligations.

One way we are seeking to minimize the impact of regulatory divergences on trade and investment is to examine closely our respective approaches to regulation. The Transatlantic Economic Council has spurred new discussions on our respective approaches to risk analysis, cost-benefit analysis, and the assessment of the economic impact of regulation on economic activity. We have also discussed regulatory approaches in particular sectors, including the food, drug, chemical, automotive, and electrical/electronics sectors.

A core function of the Transatlantic Economic Council is to encourage our regulatory agencies to collaborate, wherever possible. We are working to create the expectation among our regulators that part of their job is to cooperate with their transatlantic counterparts. Regulatory cooperation would not just benefit trade—it can also promote more effective regulation. When we both face increased imports from areas where regulatory systems are still weak, for example, we can ill-afford to have our regulatory enforcement assets inordinately focused on products from places we trust to be safe. And by cooperating, we can increase the returns on the scarce public funds devoted to our respective regulatory budgets. While differences in perspective and regulatory processes will likely never be completely overcome, at this time when we most need innovation, we should be able to rely on each other for ideas to address common problems.

Looking forward, we will be sharpening our focus within the Transatlantic Economic Council on promoting innovation in emerging sectors, such as nanotechnology and e-health, which will be critical to our competitiveness in a globalizing world. The TEC has recently launched a high-level Innovation Dialogue to further these efforts.

Additionally, if the United States and European Union can agree on common approaches among ourselves in some of these areas, they can serve as a model for other nations. Together we can provide an incentive for others to embrace our approaches rather than impose standards that could be less rigorous or impede American and European access to their markets.

Transatlantic Economic Council successes thus far include a major statement on the importance to our economies of maintaining open investment policies; significant simplification of administrative procedures for transatlantic approval of new drugs, especially "orphan," or low-demand, drugs; the EU's agreement to extend its acceptance of dual labeling, in both metric and standard, for units of measurement; steps to develop compatible standards to allow sharing of electronic patient health records; and the U.S.–EU IPR Enforcement Working Group.

We also place enormous weight on collaborating with our European partners on developing energy technologies, both to reduce demand for hydrocarbons and to cut greenhouse gas emissions. Last month we inaugurated the U.S.–EU Energy Council, under the leadership of Secretaries Clinton and Chu and their European counterparts. In addition to its work on energy security, the Energy Council will seek to stimulate transatlantic cooperation in energy research. It also will look at the policy and regulatory issues that have the potential to hinder trade, as our technology and responsible energy use continue to progress. A prime example is the issue of interoperability standards for the range of electronic devices communicating on the "Smart Grid," as we continue to modernize the electrical grids in the United States and Europe.

Another promising area for transatlantic integration efforts is aviation. The 2007 U.S.–EU Air Transport Agreement has been a major success, benefiting airlines, travelers, shippers, communities, and the broader economies on both sides of the Atlantic. The agreement expanded Open Skies to all 27 EU Member States, stripping away protectionist restrictions. Both sides committed in the agreement to second-stage negotiations aimed at further liberalization. The second-stage negotiations began in May 2008, and we have made progress across a range of important issues, including security, regulatory cooperation, and the role of the Joint Committee established by the 2007 agreement. The sixth round is scheduled for January in Washington. Our goal is to reach, in 2010, a second stage agreement that includes benefits for both sides.

THE INSTITUTIONAL FRAMEWORK

The United States has a range of Cabinet- and sub-Cabinet-level economic collaborative efforts with the Europeans. The United States maintains a multifaceted, dynamic engagement with the EU on economic topics in both bilateral and multilateral gatherings. We held the U.S.–EU summit here in Washington November 3, at which President Obama hosted his EU colleagues, Prime Minister Reinfeldt of Sweden and European Commission President Barroso. The focus of their economic discussion was on the challenges of responding to climate change and promoting strong, sustained economic growth—as articulated by the G20 in Pittsburgh.

In the weeks since the U.S.–EU summit, we have seen significant institutional changes on the European side. The ratification and December 1 entry-into-force of the Lisbon Treaty has given the EU a permanent President of the European Council as well as a High Representative for Foreign Affairs and Security Policy.

These new positions, along with the European External Action Service, the new diplomatic service that the EU is starting to build, are designed to increase continuity and coherence in EU policy. Though, in economic policy, the precise role and full impact of these innovations remain to be seen particularly the role and impact of the position held by President Van Rompuy.

The Lisbon Treaty brings other institutional changes that are worth careful consideration by U.S. policymakers. One significant shift is the increased role of the European Parliament in EU decisionmaking.

The European Parliament has received increased powers under Lisbon. The changes that have received the most attention are the increased powers and role of the European Parliament in the areas of justice and home affairs. In the economic area, the European Parliament's increased authority in setting the EU budget will also be an important factor. Stronger European Parliament authority over agriculture policy, and the exercise of new Parliamentary authority to approve or disapprove trade agreements, will also be of high interest to the United States.

As with so many other areas impacted by the Lisbon Treaty, the relationships and the dynamics are essentially being rewritten by the EU as we speak. But the clear message of these EU institutional changes for U.S. economic policymakers is that we will need to increase our engagement—both we in the administration, and U.S. legislators—with the EU's elected legislators. We have a reasonably strong understanding of activities in key European Parliamentary committees, such as in work on climate change, chemicals and pesticide regulation, telecommunications, and a range of other areas. But more work remains to be done, and the importance of that work will grow as the Parliament's role grows.

Ties and contacts between U.S. and EU legislators should also strengthen as the European Parliament's authority broadens. We in the administration welcome interparliamentary engagement. Many members of this subcommittee, as well as other Senators, have engaged in a range of dialogues and detailed discussions with their European counterparts. And on the House side, a number of Members, led by Representative Shelly Berkley, have recently met with their European counterparts in New York under the Transatlantic Legislators Dialogue.

A second institutional point is worth our attention. Although Lisbon has given agenda-setting of intra-EU meetings on foreign and security affairs to High Representative Catherine Ashton, the nation holding the EU presidency, which rotates every 6 months, will continue to lead EU meetings of, for instance, Ministers for Energy, Environment, and Agriculture. The influence of the Member States in economic policymaking will therefore remain strong. Those who would seek to influence developments in the EU and dialogue with the EU—such as the distinguished Senators on this subcommittee, and those of us in the administration—will continue to find best results by engaging with the EU on "all channels."' We need to continue to engage the EU through its high-level officials, through the Member States, the Commission, and the Parliament.

Certainly the EU has a unique and complex institutional structure in Brussels. But I know the Europeans feel the same way when they visit Washington and try to figure out how to talk with both ends of Pennsylvania Avenue. The puzzlement Americans and Europeans may sometimes feel when looking at the other's system of government, however, cannot be allowed to deter us from doing everything we can to ensure close collaboration on the range of policy issues—too much is at stake.

Finally, a third institutional factor that will have significant policy implications for the United States and for U.S. companies is that EU institutions will gain additional authority over energy as well as agriculture supports. This process will take time. While Member States may transfer legal and policymaking authorities to the Commission, they will still have strong incentives to determine policies affecting their own national firms. You may recall that the shift of competence over trade policy to the Commission led to long and difficult bilateral negotiations of compensation over lost tariff advantages as the EU consolidated its tariff schedule.

The transatlantic investment relationship is a good example of an area where this change in competency from Member States to Brussels could have significant consequences. The transatlantic investment relationship is currently valued at over $3 trillion, and its impact on trade flows is evident from the fact that so much U.S.–EU trade is intra-firm. Support for the rights of American investors abroad, not just in Europe but elsewhere as well, is an important objective of the State Department and of other agencies. We see the Department of Commerce and USTR as partners in this effort. The level of investor protection and openness on both sides is generally high. However, the relationship is based on legal commitments with the Member States in the OECD as well as an incomplete network of Treaties of Friendship, Navigation, and Commerce and Bilateral Investment Treaties. With greater competence now moving to the EU, we will want to work with both Members States and the Commission to ensure that our investment relations, the foundation of the transatlantic economy, remain strong.

I thank you again, Madame Chair and members of the subcommittee, for the opportunity to appear before you on this subject. I look forward to answering your questions on this important topic.

Senator SHAHEEN. Thank you very much for that very enlightening testimony.

And I want to start with the Transatlantic Economic Council, which you referenced in your comments, and get your assessment of that effort and how it is working. It was designed to better harmonize, as I understand, the differences in regulatory practices between the United States and the EU. But how effective has it been?

Is there a way to make it more relevant? Should we forget about it and try something else? Or what is the status?

Dr. HORMATS. It is an interesting question, and we have tried to improve it over a period of time. I think the answer is that in a number of areas, it has demonstrated success. We are working together very closely on the regulatory issues that I mentioned. And while there are not very high tariffs between the United States and the EU on most items, there are a lot of differences in regulations, the way they are administered, and the procedures.

One of the things we emphasized at the last set of meetings, which I had the pleasure of attending, was to try to do a much better job at harmonizing regulations, or at least have mutual recognition where possible. Because while it is true that there are regulatory differences between the United States and the EU, there are much greater regulatory differences between the EU and much of the rest of the world and the United States and much of the rest of the world.

So if we can harmonize our relations, we do several things. One, we improve trade flows or reduce trade barriers across the Atlantic. Two, we set a higher standard for the rest of the world. And three, if we do that properly, we can avoid other countries imposing nationalistic regulatory policies which restrict the access of our goods and of European goods and our investment and European investment to their markets.

So we think this is an important area. There are other areas where we are working together. Energy security is a very important issue. We are particularly concerned, as are you and other members of this committee, with the vulnerability of Western Europe to a heavy dependence on a certain set of suppliers and certain kinds of energy, natural gas. So to the extent we can work with the Europeans on energy security issues, that presents an opportunity as well.

Intellectual property protection, as I mentioned earlier, is another area where we can work together. By and large, the United States and Europe have quite good protection of intellectual property. But many parts of the world don't. That disadvantages American companies and European companies. And many parts of our economy are finding piracy of intellectual property to be an enormous problem.

European companies are finding the same kinds of difficulties. To the extent we can use the TEC to improve cooperation in this area, that is a plus. But I would also say that we have to continue to improve it. This is the most important and certainly in quantitative terms, but also for many other reasons, the most important relationship.

And Fran is here, who has just done an excellent report on this. We haven't had a chance to study it yet, but I can assure you we will. And there are some very imaginative and thoughtful recommendations in the report, and we will certainly take a hard look at them because it does need continued efforts to improve it. On both sides, we agree to do that, and we are looking for new ideas.

So I can assure you that we are going to be taking a very hard look at this, and I am sure we will be talking later.

Senator SHAHEEN. Yes, and we are looking forward to hearing from her as well.

Dr. HORMATS. She always has good ideas. So I am sure it will be good testimony.

Senator SHAHEEN. Actually, I was thinking what I would really like to do is put you all in a room and just have you talk among each other.

Dr. HORMATS. We can do that next week.

Senator SHAHEEN. Good. But the point you are making I think is one that is an ongoing challenge, and that is how do we better coordinate the various Government agencies and efforts that are trying to work on this kind of an issue to work better together and coordinate the relationship so that we have a unified approach to how we are dealing, in this case, with the EU–U.S. relationship?

Dr. HORMATS. I agree with that. I think part of the challenge is we have got so many agencies doing so many things in Western Europe that coordination among them is very important.

One of the things the TEC enables us to do, it focuses us—you know, it focuses our various agencies on the TEC meeting so that we have a lot of preparatory work prior to the meetings that is focused on the issues that are going to be covered. And to the extent it serves as sort of a catalytic agent for us, it can be very helpful.

Senator SHAHEEN. We were having a conversation outside before we came in about small business and the importance of trying to provide some assistance to small business to access international markets. And you talked a little bit about an effort that you are thinking about, but I wanted to—wonder if you could elaborate on that and talk about how we can do a better job of helping our small businesses gain access to European markets?

Dr. HORMATS. Yes. Thank you very much for that question. I think it is something that is very important to me, and I had the pleasure of meeting your constituent, Mr. Howland, in the other room, and companies such as his are very creative. There is a lot of entrepreneurism going on in the United States. And much of it is with small- and medium-sized enterprises, and they could export a lot more.

There are a lot of inhibiting factors, and we were talking about a few of them. First of all, it takes a long investment of time and effort to understand how to export to various markets. Most American companies that export, export to one or two countries, and most of those are Canada or Mexico because of proximity and the knowledge of those markets by Americans.

But to the extent companies can export to those countries, they should, in most cases, be able to export to others. So one of the things that I am going to try to do, as I mentioned, is to sit down very shortly with the head of the Small Business Administration and with people in the Chamber of Commerce and other groups to figure out what we in the Government can do.

And the State Department, obviously, can't do it alone. We have to work particularly with the Department of Commerce, which is doing an excellent job in this area also. And figure out ways that we can help small business to, first of all, identify markets; second, get to understand how to crack those markets; and three, utilize our Embassies, our State Department, Civil Service, and Foreign Commercial Service officials to provide the assistance they need.

And for small businesses, this is particularly important. Bigger businesses have done it for a long time. Smaller ones have not. So we are trying to figure out ways we can work with them.

There are other things that are important. I met yesterday with a coalition of services industries, and one of the things that is important is when small businesses do try to crack these markets, they have the financial services, the transit, the communication services, the Fed Ex, UPS kind of services that are needed to provide them opportunities to sell into these markets. And many of these service companies have had a lot of experience at these, in dealing with these emerging markets.

And last, to deal with some of the bigger companies. Some of the bigger companies have experience, but in order to advance their own export potential, they would like to work with smaller companies that have newer products. Where those companies may, themselves, not be able to export to these markets, bigger companies have an interest in working with them to help them do so.

So on a number of fronts, we are going to try to make this an effort. Secretary Clinton is quite interested in doing this. So we are going to, over the next several months, really make an effort to work closely with small businesses and help them to do this. It can create jobs. It can help exports. It can help in the overall rebalancing that we are talking about internationally.

Senator SHAHEEN. And you mentioned the Qualcomm example outside. Is there a role, do you think, a public role to work with private companies like that to encourage them to think about assisting the smaller businesses that they may be doing business with?

Dr. HORMATS. Absolutely.

Senator SHAHEEN. And how would you envision that working?

Dr. HORMATS. Absolutely. I had the pleasure of meeting with the CEO of Qualcomm this morning, and they are doing a lot of very good work with American companies and helping them to export, and also they are helping other countries to understand how better to use things like cell phones to advance their own internal commerce, which, in turn, helps us. To the extent these countries can grow, it helps us as well.

So one of the thoughts I had was to work with large companies, get them informally—and they are doing it to a large degree already—but informally working with some of the smaller companies to see where the two can actually find mutual benefits. And also I think what is not as fully understood in this country is how much many of the American high-tech companies are already contributing to development in emerging and poor economies.

Cell phones, for instance, are the delivery device for much of the information that goes to rural India so people know about the price of crops. They were telling me about one use of cell phones where you can take a picture of, for instance, some fruit that is blighted.

You send it in to a research center. The guy couldn't come out from the research center to the small village. He takes a look at it and describes what he thinks is wrong with it, sends out the kind of spray that is needed to cure whatever is wrong with the apple or the cherry or whatever is on the tree.

So there are ways you can use this technology to the advantage of developing countries, which, in turn, promotes the exports of American goods. And not just the cell phone, but everything that goes into the cell phone, which, in many cases, can be produced by smaller companies so that if they don't export directly, they can export indirectly by providing components to the final product.

So a lot of this is intertwined. And one of the things we are trying to do is to work—and the State Department, as I say, can't do it alone. But we can provide a sort of catalytic role for companies like this and encourage them and shine a spotlight on this so people—others know what they are doing and can participate.

Senator SHAHEEN. We actually just had a conversation earlier at a hearing about Afghanistan around the cell phones, the potential use of cell phones in Afghanistan. So it is a very interesting——

Dr. HORMATS. Yes. It is remarkable.

Senator SHAHEEN [continuing]. Prospect.

Dr. HORMATS. It is. It is.

Senator SHAHEEN. I want to go back to energy, which you raised a little earlier. And again, as you mentioned in your written testimony, the administration launched the U.S.–EU Energy Council during the summit in November. And I know that energy security and clean energy is a priority for this administration, for you in your new position, and there are areas that I think are particularly critical for future business growth. They will have a significant impact on our economy as we transition to a new energy economy.

And I wondered if you could outline the kinds of opportunities that you think exist and then the obstacles to promoting development of these critical energy businesses? And maybe you could also, if you would, address whether you think there is—what is going to happen in Copenhagen this week and next will have an impact on how you see this issue playing out in the U.S.–EU markets?

Dr. HORMATS. Sure. Well, I am delighted you focused on the energy portion of it because that is increasingly important in terms of several areas of the energy scene. One is energy security, as I mentioned. We are all interested in more secure supplies of energy.

The Western Europeans in particular have felt very vulnerable in some cases because they are highly dependent on Russian natural gas. Now I think—having just been to Russia last week, and I have put a little bit of this in my written testimony, I think there is a greater degree of cooperation between Russia and the EU now than there has been in the past.

They have established an early warning system that will identify the potential for energy supply disruption, and that means the EU and the Russians will be working very closely on that, and I think that is a plus. And by and large, my conversations in Russia suggest that the Russians really wanted to be seen as a reliable supplier.

On the other hand, as with any commodity, anything at all, diversification is extremely important. And therefore, we are very supportive of the efforts of the Europeans, the Western Europeans to have diverse sources of energy, diverse channels for delivering energy.

And there is the notion of the southern route with the potential Nabucco pipeline, which, as you know, Senator Lugar has been very interested in supporting, and a lot of members of this committee have recognized the importance of a pipeline or a source of energy that can take natural gas from the Caspian Sea and move it into Western Europe as an alternative to Russian gas, just because diversification is a positive thing. It is a positive thing for us. It is certainly a positive thing for Europe.

Now what has happened in the gas market is quite interesting. Because the United States is now producing a lot more natural gas, we are relying a lot less on liquefied natural gas, which is imported. And a lot of that is going to Europe so that there is more diversification in European gas supplies by this additional liquefied gas coming in.

And if you add other potential sources from the Caspian, the so-called southern route, the Europeans will have greater potential for diversifying. That is one area.

Second is energy efficiency. We all need to improve the efficiency of our energy. Working together with the EU on energy technology is something that is extremely important. Those are the kinds of areas where we think with American science and American companies working together, we can actually make a considerable amount of progress.

On the Copenhagen question, I haven't been as closely involved in that as Todd Stern and some of the others. So I think I will hold off on answering that question because they are right in the middle of negotiations now, and I just don't know how they are going to come out.

But I will say that however they come out, one of the things that we need to do—one would hope they come out very successfully, and we are certainly working toward that end. But however they come out, the United States and Europe still need to concentrate to a greater degree on energy efficiency, clean energy, working together to develop new energy technologies.

There are a wide range of things we can do together, and we have a common interest. We are both dependent—Europe, most of Europe more heavily so than the United States—on imported energy, and we want to rely as much as we can on domestic primarily clean energy.

Senator SHAHEEN. Thank you. I am trying to get you to wade into Copenhagen, but——

Dr. HORMATS. Yes. We are in the middle of it. So I sort of reserve until we have a clear idea of what we are going to come out with.

Senator SHAHEEN. I want to switch to some of the enforcement challenges because, obviously, enforcement issues remain a concern to a lot of businesses that do work abroad. And though, as you have indicated, it is not as much an issue in our relationship with the EU as with some other countries, there are still challenges there. And I have had some companies complain that we have not had a consistent U.S. policy when it comes to enforcing trade policies and that we need to be more focused on the potential impacts to American business of companies abroad that don't abide by our trade policies.

And I wonder if you could talk about what kind of a priority that is for the State Department and how we work together with the Office of the Trade Representative, with Commerce, to address the issue of enforcement and how important you see that is for American businesses?

Dr. HORMATS. Well, I think enforcement is critically important. It is important for two very fundamental reasons, one of which is that American companies who find their rights abridged by, or their access to markets abridged by, actions by other countries expect correctly the Federal Government of the United States to support them in their efforts to correct that situation.

And second, because we would like to develop agreement in the Doha Round, the WTO round. We would like to work together as, you know, the President made an announcement when he was in Asia about reinvigorating the TPP talks, more engagement in those. If we are going to be credible with the American people in negotiating trade agreements, we have to be credible in enforcing those agreements. Otherwise, we won't have the kind of support we need to conclude them if they think we are going to conclude them and not follow up.

So that, on both counts, they are very important. And I would say that we—the State Department and USTR, Ambassador Kirk, who has done a superb job, we are working with them and very supportive of them in these efforts. Every time I go anywhere, every time the Secretary of State goes anywhere, and other senior officials, we make very strong points in support of American companies that are, A, experiencing trade difficulties in individual countries and, B, in terms of support for American exporters.

For instance, in Russia just last week, I made a number of points. The Russians had agreed in 2006 with the United States to do a number of things to reduce barriers in the agriculture field, beef and poultry and pork. And there were a number of areas in which the progress has not been as good. In some cases, there is a concern even about backtracking with respect to higher tariff rate quotas on pork and poultry—or lower tariff rate quotas, in fact, lowering the quota, which would harm our exports.

So, basically, what we are trying to do is figure out in every country we go to the kinds of issues we need to raise to ensure that our trade interests are put into effect, and we push what we are trying to get these countries to do and push our trade agenda. And that is something we do in every country. All the talking points for the Secretary, for myself, and anyone else focus on these to a very substantial extent because we know they are important exports and we know they are important to credibility.

And in doing these things, in developing these points and taking these initiatives, we work very closely with the U.S. Trade Representative. With respect to the EU, for instance, there are a number of things that we have done. We successfully, for instance, reached a compromise agreement with the European Union on hormone beef after a series of bilateral talks. This is something that is now leading to an increase in the exports of hormone beef to Western Europe.

So the other part of the problem is that we still have issues with the EU on such things as the exports of biotech corn and corn products, particularly animal feed. So we are working to—these are just individual examples. But we are trying to enforce and promote our interests and make sure that what we believe to be our legitimate trade rights under the WTO or the guide before it, or under bilateral agreements, are enforced.

So this is a very high priority, both in terms of our economy and in terms of our credibility as a country and in terms of the credibility of the whole trade negotiating process.

Senator SHAHEEN. Good. Thank you.

I especially appreciate hearing that. We had a situation with a company in New Hampshire that had a longstanding issue, not with the EU, but with Japan, that——

Dr. HORMATS. I recall that. It came up in my hearing. So——

Senator SHAHEEN. Yes, I think it probably did.

Let me also ask about the restrictions that we have on exports, companies. ITAR is one of those that is challenging as we think about defense and security items. And is there a way to work toward a more open defense market?

And I am sure that Dr. Burwell will get into this a little bit on the second panel, but is this something that State can help take a look at so that we can ensure that we are not restricting everybody in the defense industry, regardless of how critical their product is to national security?

Dr. HORMATS. Yes. This is a very significant question because the world has changed a lot since the cold war, and technology has changed a lot even since last year. So what we are in the process of doing is taking another look at a number of products.

Obviously, there are some areas where there is a strong national security argument, and there won't be any loosening and may be some tightening. But in many cases, there are products that are on the list that should be reviewed in terms of, one, are they readily available on the shelves of P.C. Richard or some other store? And—or readily available from other countries, and therefore, a unilateral American embargo on the export would not serve very much purpose.

So we are going to take a look at this and hopefully modernize the process and bring it up to date. This is obviously important. It is important to review these things periodically anyway, but particularly, given the fast pace of technology, the spread of technology, the wider availability of a lot of things. We obviously have to look at these things and review these lists on a fairly regular basis.

And I think that that is fair to exporters. It also means that we can concentrate the work and the efforts of our people on the high priorities, and they don't have to worry about things that are less important and are available on the drugstore shelves or anywhere else in the world.

Senator SHAHEEN. And is that something that you think State will take the lead on?

Dr. HORMATS. State will certainly work with the other agencies. There are several agencies. Obviously, the Defense Department will be critical. The Department of Commerce will be critical. State will certainly play a very strong role in this process, for sure.

Senator SHAHEEN. Thank you.

And my final question has to do with the concern about making sure that we have all of the nominees in the key positions that we need in order to get this work done.

Dr. HORMATS. Yes.

Senator SHAHEEN. And I know that the nominee to be the Deputy U.S. Trade Representative with trade responsibility for WTO and the EU was nominated in April, has been voted out of committee, and yet is being held up. And I wonder if you could just speak briefly to the challenges it creates in terms of addressing some of the issues that have been raised today to not have in place a full team of people who can do the work?

Dr. HORMATS. Well, it does make things more difficult. If you don't have people in place who are responsible for the kinds of things that you have just mentioned, WTO and Europe, and both are very important, and both are very important priorities.

So the sooner those jobs can be filled, the better for our country and for addressing the very kinds of issues that you and I have been discussing for the last several minutes. These are the kind of people who are needed and we have a very able person who has already been trained for this job. These things can help the process along.

And I would simply say that the sooner these jobs can be filled with the kind of quality people who have been nominated for them, in this case, a very high qualified person, it would certainly help the process.

Senator SHAHEEN. Well, thank you. Thank you very much.

Dr. HORMATS. My pleasure. Thank you for having me.

Senator SHAHEEN. I think we are getting you out of here on time.

Dr. HORMATS. I appreciate that, and I look forward to seeing you again. Thank you for inviting me up.

Senator SHAHEEN. Yes. We look forward to continuing to work on these issues as we try and strengthen this relationship and our exports.

Dr. HORMATS. I look forward to it, and I will follow up with Fran's paper, too.

Senator SHAHEEN. Good. Thank you very much.

I will ask then our second panel if they could come forward?

Welcome to our second panel. I understand that we are not going to have any votes until after 4 p.m. So we should be all set with getting through your testimony and our questions before the votes occur. Again, we have three more very impressive witnesses to further delve into these issues.

First on our panel is Dr. Frances Burwell. Dr. Burwell is currently the vice president and director of transatlantic relations and studies at the Atlantic Council of the United States. Her areas of expertise include U.S.–EU relations and the development of the European Union's foreign, defense, and economic policies.

Most recently, she worked with Dr. Daniel Hamilton from the Johns Hopkins University Center for Transatlantic Relations on a new report that we have already heard about, outlining ways to strengthen the U.S.–EU partnership. The publication, entitled "Shoulder to Shoulder: Forging a Strategic U.S.–EU Partnership," has already been met with wide acclaim. The subcommittee looks forward very much to hearing more from you, Dr. Burwell.

We also have joining the panel Dr. Michael Maibach, the president and CEO of the European-American Business Council, where he has served for over the last half decade. It sounds very impressive when we say it that way. I think you have been there for little more than 5 years. Is that correct? Seven years, OK.

Founded in 1989, the council includes 70 global companies, both European and North American-based enterprises. The council has offices in both Washington and Brussels and is committed to promoting transatlantic investment, innovation, and integration. And prior to his current position, Mr. Maibach worked for over 18 years at Intel Corp., where he became an industry leader in a number of important policy initiatives. And we are very happy to have you here today as well.

And finally, I want to introduce from New Hampshire, Mr. Charles Howland, who is the president of Warwick Mills. And I should point out to all of us here how much we appreciate your getting here in a snow storm in New Hampshire. So thank you very much.

Warwick Mills is a New Hampshire-based company founded back in the late 1800s that has developed itself into a world leader in innovative textile engineering and cut-resistant fabrics for use in advanced protective garments. Warwick holds 14 international patents in protective materials, and in 2008, the company was awarded the Export Achievement Award from the U.S. Department of Commerce in recognition of the firm's growth into the global marketplace. And Warwick Mills does a significant amount of business in Europe, where it exports many of its products overseas to the United Kingdom, Netherlands, Germany, and France.

Mr. Howland is well placed to offer this subcommittee a unique perspective on the transatlantic economy and how the U.S. Government can better support and sustain the efforts of small- and medium-sized businesses in their efforts to expand into overseas markets. We applaud you and Warwick Mills for your success and look forward to hearing your insights into what has worked and what hasn't.

And I will ask you to begin, and then Mr. Maibach, and we will finish with Dr. Burwell.

Mr. Howland.

STATEMENT OF CHARLES HOWLAND, PRESIDENT AND CHIEF ENGINEER, WARWICK MILLS, INC., NEW IPSWICH, NH

Mr. HOWLAND. Thank you very much for that introduction.

I would just like to say a few things about our perspective on international trade. In particular, our most important relationships, of course, are in Europe.

The EU is a critical trading partner for American companies. In our own case, we have product lines whose primary market is the EU. As a small business, we exist on the value of our innovations. We must innovate to thrive.

To make a commercial success out of our inventions, we must have access to markets that are deep and sophisticated. Europe is at the top of the list in these characteristics.

In the technology and materials sector, products are very targeted and must conform to regional standards and specifications. These are not commodity offerings, and the basis for competitive advantage is in advanced engineering. Programs of this type allow us to manufacture in New Hampshire at a profit.

At a national level, we are engaged in a debate about how to retain and expand manufacturing employment. On the ground, a few small manufacturers have found a new business model. This model is based on developing best-in-class technology products and selling them into specialty markets where they can command a premium. In Europe, customers understand this value proposition, operate on a clear legal basis, and respect intellectual property.

Maintaining the required levels of R&D investment is an ongoing challenge for small companies. Taking a concept through to revenue production is not a sure thing. We have found that keeping both domestic and European requirements as objectives doubles our potential for success.

The current, more realistic valuation of the dollar is helpful. The return to a bilateral foreign policy and constructive engagements with the Europeans on issues such as climate change are all important. However, the key to trade with Europe is to build and maintain technical leadership in the engineering of our products.

There are some issues with Federal policy that we would like to comment on. The SBIR/STTR program coming out of the DOD is enlightened. However, the DOD program is focused solely on internal domestic needs for new technology and cannot drive exports because of ITAR controls.

We propose that the U.S. Commerce Department should get involved and become a full participant in the SBIR program. The Department of Commerce focus would be on the development of export products and the creation of manufacturing jobs.

[The prepared statement of Mr. Howland follows:]

PREPARED STATEMENT OF CHARLES HOWLAND, PRESIDENT AND CHIEF ENGINEER, WARWICK MILLS, INC., NEW IPSWICH, NH

At Warwick we have a few thoughts with respect to transatlantic trade. The EU is a critical trading partner for American companies. In our own case we have product lines whose primary market is in the EU. As a small business we exist on the value of our innovations. We must invent to thrive. To make a commercial success out of our inventions we must have access to markets that are deep and sophisticated. Europe is at the top of the list in these characteristics.

In the technology and materials sector products are very targeted and must conform to regional standards and specifications. These are not commodity offerings and the basis for competitive advantage is in the advanced engineering. Programs of this type allow us to manufacture in NH at a profit. At a national level we are engaged in a debate about how to retain and expand manufacturing employment. On the ground a few small manufactures have found a new business model. The model is based on developing best in class technology products and selling them into specialty markets where they can command a premium. Europe customers understand this value proposition, operate on a clear legal basis, and respect intellectual property.

Maintaining the required levels of R&D investment is an ongoing challenge for small companies. Taking a concept through to a revenue product is not a sure thing. We have found that keeping both domestic and European requirements as objectives doubles our potential of success. The current more realistic valuation of the dollar is helpful. The return to a bilateral foreign policy and constructive engagement in with the Europeans on issues such as climate change are all important. However the key to trade with Europe is to build and maintain technical leadership in the engineering of our products.

There are some issues with Federal Policy that we would like to comment on. The SBIR/STTR program coming from the DOD is an enlightened program. However the DOD program is focused solely on internal domestic needs for new technology and can not drive exports because of ITAR controls. We propose that the U.S. Commerce Department should get involved and become a full participant in the SBIR program. The DOC focus would be on development of export products and the creation of manufacturing jobs.

Warwick Mills is based in New Ipswich, NH, and is a manufacturer of advance protective garments and flexible composites with high cost of failure. Established in 1888, Warwick engineers these protective suits and systems from concept, through prototype, and into production. Engineering and manufacturing operations include lab testing, research and development, material production, laminating, and final assembly.

In 2008, Warwick Mills was Awarded Export Achievement Certificate from the United States Department of Commerce which recognized the firm's recent growth in the past 5 years in the global marketplace. A significant portion of this achievement was due to Warwick's strong export business in Europe, particularly Great Britain, Netherlands, Germany, and France. In addition to Warwick's premier position in stab-resistant body armor technology in Europe, the company has a broad line of protective materials found industrial suits, gloves, and a tire components including the antiflat component is the largest-selling bicycle tire in Europe. Warwick's line of TurtleSkin Gloves provides the highest level of puncture, stab, and protection from hypodermic needles, nails, wire, glass fragments, metal shards, wood splinters and cuts, meeting the rigorous EU standards requirements.

One of Warwick's largest customers worldwide has been the Netherlands National Police. Beginning in 2005, Warwick began a collaboration with Ten Cate, a Dutch manufacturer, and BSST, a German manufacturer, and together won a contract to supply the Netherlands National Police force with stab and ballistic body armor, to date which has reached over 90,000 body armor units. This award came after the three companies successfully answered a second call for proposals issued to the European market.

Warwick holds 14 international patents in protective materials. The company produces TurtleSkin protective materials and products for applications requiring advanced levels of puncture and cut protection, as well as durability and performance. Warwick's staff participate in ASTM and ISO standards committees both in North America and in Europe.

Senator SHAHEEN. Thank you very much.

Mr. Maibach.

STATEMENT OF MICHAEL C. MAIBACH, PRESIDENT AND CEO, EUROPEAN–AMERICAN BUSINESS COUNCIL, WASHINGTON, DC

Mr. MAIBACH. Good afternoon, Madam Chairman. And thank you very much for having me. It is an honor.

And I want to compliment Chad Kreikemeier on your staff. He is a fine professional and very easy to work with. We appreciate it.

Senator SHAHEEN. Thank you.

Mr. MAIBACH. The EABC was founded 20 years ago. We represent 70 companies—40 U.S. and 30 European-based global companies. Our companies possess cutting-edge competitive skills in the service of customers across the globe.

These skills include how to successfully collaborate with commercial and governmental partners across national and sectoral lines to drive economies of scale, to promote innovation, and meet the needs of customers in ways made possible often because of partnerships. These are the kind of skills, insights, and best practices U.S. officials must also hone to keep our Nation competitive in an exceptionally competitive world.

The strategic skills I'm referring foster transnational regulatory collaboration in ways which enhance investment and innovation. The pressure to hone these skills is coming from the forces of globalization. Of course, globalization has been with us since at least Columbus and Magellan. However, ever since the Berlin Wall came down, globalization has been tumbling faster and faster through the streets of every nation, through the boardrooms of every enterprise, and through the halls of every government.

Today globalization is being driven by twin strategic events. First, when the Berlin Wall came down China decided to embrace capitalism. This change in China caused India to throw open its doors to global markets, as it hadn't in the past. Overnight, we had almost 3 billion new capitalists competing with our country and with the West. Economic forces of historic proportions were then set in motion.

Compounding the impact of China and India have been several accelerants of change. Moore's Law of Computing has combined with Metcalf's Law of Networks to create the transnational tsunami we call the Internet. Since 1947, the WTO has expanded from 23 to 139 nations, tearing down centuries-old barriers to trade, investment, innovation, and competition. And the world's population has doubled since John F. Kennedy was President.

In summary, everything is changing everywhere, very, very quickly. The world's vertical chessboard has been flipped onto a horizontal axis. This means that every enterprise and every government survives and thrives in part because of the quality of its "horizontal partnerships." This is really "the century of alliances."

Government-to-government, company-to-company, and government-to-industry collaboration are now fundamental to economic success in the 21st century. The United States and Europe represent only 11 percent of the world's people, but account together for over half the world's trade, investment, and GDP. The same percentages goes for air travel, health care spending, and capital flows. This is clearly a very wealthy, successful part of the world. And Americans and Europeans are more than anything else investment partners. For every dollar traded across the Atlantic, $4 is invested. Enterprises attempt to sell everywhere, but only invest where the risk is low and the laws and commercial regulations are clear and enforceable. Seventy percent of the investment that comes into the United States is invested by European companies, and over half the investment into Europe is invested by American companies. There is twice as much United States investment in Ireland than all of China. There is more Dutch investment in

Texas than in China. The European investment in China is only 4 percent of their total investment portfolio in this country, only 4 percent. And together, the United States and Europe drive the world's standards, regulatory regimes, and best practices. And we have for several decades.

The fact is that the United States and Europe are at the heart of the global economy. In 2007, Chancellor Merkel, Presidents Bush and Barroso created the Transatlantic Economic Council. They recognized that global regulatory cooperation must begin with transatlantic collaboration. This is the TEC's mission and its promise.

It has yet to reach the potential of its promise, and this needs to change and in 2010. We have, at the EABC, a five-point prescription for TEC's success.

No. 1: Select "yes-yes" policy projects that will enjoy strong, sustained government support and collaboration. By this, I mean projects where the bureaucracies on both sides of the Atlantic want to have success. Without that, you won't move forward. And at an early and in a continuous way, we have to have the buy-in and active support of legislative leaders on both sides of the Atlantic.

No. 2: Select policy projects that can be accomplished in 1 to 4 years.

No. 3: Appoint senior United States and European Union career officials as Policy Project cochairs. These are people with 10, 20, even 30 years of experience in the bureaucracy, not a political appointee who will come and go in less than 2 years.

These cochairs must enlist the active involvement of key industry groups with whom they work. Our phone needs to ring in industry, whether it is the U.S. Chamber, NAM, the EABC, or some other associations. We need to be put to work as partners by the two governments in a way we have not been asked to do.

No. 4: Semiannual TEC meetings must become "performance reviews" for Policy Project cochairs. United States and European Union legislators must be involved in those reviews. The cochairs need to be called in and asked for their roadmaps to success and how they are doing on their roadmap timelines.

And No. 5: The annual U.S.–EU leaders summit between President Obama and President Barroso and whomever has the EU Presidency in that particular semester must include a report of TEC deliverables. These leaders have to expect results. These are deliverables that are business operational for wealth creation, innovation, and investment.

Finally, we have five recommendations for the TEC agenda I've just described. No. 1: e-Accessibility. Create a global standard—starting across the Atlantic—for sight and hearing impaired people to be on the Internet and not be locked in a silo in one country or the other. Everybody wants to set this global standard. The EABC has been working for 7 years on this.

No. 2: e-Health. We have \$20–\$30 billion in the stimulus package for the digitization of health records. But we must have e-Health interoperability—not only between Americans, but across the Atlantic and around the world. This is not only for the direct benefit of patients, but interoperability for all related products, services, hardware and software so that we can globalize those sales to serve billions of patients. Also, diseases are on the move, as well as patients.

No. 3: Accounting convergence. U.S.–EU cooperation is now nearly successful. We have IFRS recognition here in the United States. We plan to move away from U.S. GAAP to a global standard of 130+ countries now suing the IFRS standards.

No. 4: Carbon accounting standards. We are starting to talk about "cap and trade," as well as other regulatory regimes. Our companies want to have common metrics when they work with global customers. They must have the same carbon metrics in every country to advance innovation and success. If DHL delivers a package in the United States, they have to be able to measure the "carbon footprint" of that package delivery the same way they do in France, Germany, or any other market.

And finally: Nanotechnology. This is a highly important competitive advantage for our country and for the nations of Europe. We have to have nano research and regulatory cooperation.

So these are our ideas on how to improve the TEC performance in support of our success as a country. And these are five ideas of what the TEC should focus on.

Thank you.

[The prepared statement of Mr. Maibach follows:]

PREPARED STATEMENT OF MICHAEL MAIBACH, PRESIDENT AND CEO, EUROPEAN AMERICAN BUSINESS COUNCIL, WASHINGTON, DC

Good afternoon, Madam Chairwoman and Senators. Thank you for inviting me. It is an honor to be here. My name is Michael Maibach, president and CEO of the European-American Business Council. We were founded in 1989 and have offices in Washington and Brussels. We represent 70 global companies, including 40 U.S. and 30 European-based enterprises.

Our companies possess cutting edge, competitive skills in the service of people across the globe. These skills include how to successfully collaborate with commercial and governmental partners across national and sectoral lines to drive economies of scale, promote innovation, and meet the needs of customers in ways only possible because of these partnerships. These are the kind of skills, insights, and best practices U.S. officials must hone to keep us competitive in an exceptionally competitive world.

The strategic skills I'm referring foster transnational regulatory collaboration in ways which enhance investment and innovation. The pressure to hone these skills is coming from the forces of globalization. Of course, globalization has been with us since at least Columbus and Magellan. However, ever since the Berlin Wall came down globalization has been tumbling faster and faster through the streets of every nation, through the board rooms of every enterprise, and through the halls of every government on the planet.

Today globalization is being driven by twin strategic vectors: First—China: After the Berlin Wall came down China embraced capitalism. This change in China caused India to throw open its doors to global markets, as well. Over night the world had 3 billion new capitalists competing for the future. Economic forces of historic proportions were set in motion.

Compounding the impact of China and India have been several accelerants of change: Moore's Law of Computing has combined with Metcalf's Law of Networks to create the transnational tsunami we call the Internet. Since 1947 the WTO has expanded from 23 to 139 nations—tearing down centuries—old barriers to trade, investment, innovation, and competition. And the world's population has doubled since John Kennedy was elected President.

In summary, everything is changing, everywhere, very, very quickly. The world's vertical chess board has been flipped on to a horizontal axis. This means that every enterprise and every government survives and thrives in part because of the quality of its "horizontal partnerships." Government-to-government, company-to-company and government-to-industry collaboration are now fundamental to economic success in the 21st century.

The United States and Europe represent only 11 percent of the world's people, but together account for over 50 percent of the world's trade, investment and GDP. The same goes for air travel, health care spending, and capital flows. And Americans and Europeans we are more than anything investment partners. Seventy percent of foreign investment in the United States comes from European firms. And over 50 percent of the foreign investment into Europe is done by U.S. firms.

There is twice as much U.S. investment in Ireland as in all of China. European investment in China is only 4 percent of their total U.S. investment portfolio. And together the United States and European Union drive the world's standards, regulatory regimes and best business practices in business and government. The fact is that the United States and Europe are at the heart of the global economy.

In 2007 Chancellor Merkel and Presidents Bush and Barroso created the Transatlantic Economic Council. They recognized that global regulatory cooperation must begin with transatlantic collaboration. This is the TEC's mission and its promise. It has yet to reach the potential of its promise. This needs to change—now.

We have a 5 point prescription for TEC's success:

1. Select "Yes-Yes" Policy Projects that will enjoy strong, sustained government support. This must include early and continuous buy-in from U.S. and EU legislative leaders.
2. Select Policy Projects that can be accomplished in 1–4 years.
3. Appoint senior career U.S. and EU officials as Policy Projects cochairs. They must agree on a roadmap for success that includes timelines for progress. And they must enlist the active involvement of key industry groups such as the EABC.
4. Semiannual TEC meetings must become performance reviews for Policy Project cochairs. U.S. and EU legislators must be involved in these reviews.
5. The annual U.S.–EU Leaders Summit must include TEC deliverables. Presidents Obama and Barroso must expect results that have business operational value.

Finally, the EABC recommends that the 2010 TEC Agenda include 5 Policy Projects:

1. e-Accessibility: A global standard for sight and hearing impaired.
2. e-Health: A global standard for health IT records and systems.
3. Accounting Convergence: A single global accounting system (IFRS).
4. Carbon Accounting Standards: A single global standard.
5. Nano-Technology: U.S.–EU research and regulatory cooperation.

Thank you for your interest in our views.

Senator SHAHEEN. Thank you very much.

Dr. Burwell.

STATEMENT OF FRANCES G. BURWELL, PH.D., VICE PRESIDENT, DIRECTOR OF TRANSATLANTIC RELATIONS, THE ATLANTIC COUNCIL, WASHINGTON, DC

Dr. BURWELL. Thank you very much, Madam Chairwoman. Thank you for this opportunity to appear before you.

I am honored. I truly welcome your interest in a subject—the transatlantic economy—that is often ignored but is a vital part of U.S. prosperity. I would like to make a few remarks regarding U.S.–EU economic relations and then talk about proposals for making that relationship stronger.

As a number of people here today have mentioned, the United States and the European Union make up more than half of global GDP. Even though we can expect growth rates to be fairly flat next year, the size and attractiveness of the United States and European Union markets will continue to make them leaders in the global economy, especially in the shaping of global standards and regulations.

The EU, with its 27 Member States unified in one trading bloc, is the top trading partner of the United States, and it is also the top investment partner of the United States with 12 million jobs on both sides of the Atlantic supported by this investment. I realize there is much talk of the United States and China as the new G2, but I hope that this brief recitation makes clear that it is the United States and the European Union that is the real G2.

That said, the financial crisis has fully demonstrated the importance of the emerging economies. As we integrate these countries as new leaders in the global economy, it is even more important that the transatlantic partners work closely together. Not all the emerging economies share our views on the importance of markets and rule of law, as Secretary Hormats pointed out before, and yet these must be reinforced in the aftermath of the crisis.

This is an especially propitious moment to focus on transatlantic economic relations. The new Lisbon treaty moves trade and investment policy more strongly away from the Member States and to the European level, although it will undoubtedly take some time for everything to shake out. It gives new decisionmaking power in these areas to the European Parliament, much more equivalent to the U.S. Congress.

This is especially important because most obstacles to transatlantic trade and investment are now regulatory obstacles rather than traditional tariffs and quotas. The Congress and Parliament now both play a central role in determining whether U.S. and EU regulatory policy is compatible or contradictory.

To strengthen the transatlantic economy, we would recommend a three-pronged strategy. These recommendations draw on two reports, "Shoulder To Shoulder," which you kindly and graciously mentioned before, and "Resetting the Transatlantic Economic Council," which has been done with the Bertelsmann Foundation Washington office, as well as the Atlantic Council.

The first element of this is to reduce the barriers that still exist between the United States and European Union to create a barrier-free transatlantic market. We would suggest several initiatives to this end.

First, a tariff-only free trade agreement that would eliminate duties on industrial and agricultural products traded across the Atlantic. This would provide an important positive political impulse, even though most tariffs are already very low.

It is likely to have significantly more domestic political support, including from unions, than many other FTAs currently under consideration. I realize this is likely to sound very controversial, and I would be happy to talk about it more in the questions.

Second, we should initiate transatlantic negotiations to reduce barriers in certain sectors, particularly services. Services is a huge part of the United States and European Union economies, and our service sectors are increasingly linked.

Three, we should invite others to join these initiatives if they are willing to take on the responsibilities and obligations. This should not be a "Fortress Atlantique," but rather should be the building block for wider and continued liberalization of the global economy.

Four, we should remove remaining barriers to investment while developing reasonable and compatible guidelines for national security along the lines of CFIUS. In the past, it has been the nation states—the Member States in Europe—who have had that responsibility, but it is now possible that we could do this on an EU-wide level, making it actually practical.

We should boost regulatory cooperation by identifying essentially equivalent regulations that we can recognize mutually. We should focus on regulation in areas of new technology where there is not a lot of existing regulation, and we should provide regulatory agencies with the resources and incentives to cooperate internationally. Congress in this area has a real opportunity to take leadership in ensuring that companies operating on both sides of the Atlantic do not face conflicting regulatory environments.

The second major element in deepening the transatlantic economy would be to launch an effort to create green economies with an emphasis on innovation that will create jobs and prosperity. Again, we would suggest several steps in that direction.

No. 1, supporting transatlantic innovation in the energy field by working with the EU to establish financial support for research and for commercializing new technologies, if required. We should also work together to encourage greater energy efficiency, including joint development of smart grids and carbon capture and storage technologies.

Two, we need to address the potential conflict between climate policy and trade. The United States and European Union should work with our G20 partners so that new trade obstacles, such as border charges, are not levied on carbon-intensive imports. It may be that new trade negotiations are required to avoid that type of barrier.

Three, we should implement the commitment at the October 2009 TEC meeting to establish a U.S.–EU innovation dialogue.

And four, we should ensure that the new U.S.–EU Energy Council develops a forward-looking and focused agenda.

The final element in deepening the U.S.–EU economic relationship is to reinvigorate the Transatlantic Economic Council. The TEC needs to focus on strategic issues or it will fail to engage key policymakers in the White House, Cabinet departments, and on the Hill.

The next TEC meeting in spring 2010 is crucial. To maintain its focus, the ministerial-level TEC should be supported by a series of subcouncils or working groups that can focus on specific issues. Every effort should be made to resist having the TEC dominated again by issues such as chlorine-washed chicken.

The TEC should focus on strategic issues in three areas. One, promoting economic recovery and growth, with a focus on building a green economy and boosting innovation.

Two, coordinating approaches to global economic governance. In effect, the TEC should become the place where the United States and the European Union coordinate informally prior to G20 meetings.

Three, the TEC should advance efforts to create a barrier-free transatlantic market, as described earlier, including by pursuing several regulatory projects. Mike has described some of them. And a special emphasis might be given to emerging industries, where little regulation yet exists.

Finally—and this comment applies not just to TEC, but beyond. We must expand the circle of those engaged in managing the U.S.–

EU economic relationship, particularly bringing in key legislators and the Transatlantic Legislators Dialogue. None of the obstacles that need to be addressed—tariffs, regulatory, investment barriers—can be addressed without the cooperation of legislators.

The TLD needs to be reinvigorated. Representative Berkley has been doing a great job, but I think she cannot do it just based on the House. It might interest you to know that in our report, "Shoulder to Shoulder," we recommended that the chair of the Europe Subcommittee of Senate Foreign Relations become the cochair of the TLD.

TLD members and key committee chairs should be integral members of the TEC, as should their colleagues from the European Parliament. Legislators could develop a regular review mechanism for identifying pending legislation that has a transatlantic impact and could report that to the TEC.

The fact that the European Parliament is opening an office in Washington in the new year offers an opportunity for greater legislative consultation and dialogue on key issues affecting the transatlantic economy.

Thank you for your attention, and I look forward to your questions.

[The prepared statement of Dr. Burwell follows:]

PREPARED STATEMENT OF FRANCES G. BURWELL, VICE PRESIDENT AND DIRECTOR FOR TRANSATLANTIC PROGRAMS AND STUDIES, ATLANTIC COUNCIL, WASHINGTON, DC

Madam Chairwoman, Senator DeMint, other distinguished members of the subcommittee, thank you for this opportunity to appear before you to discuss this important topic. I am honored. I truly welcome your interest in a subject—the transatlantic economy—that is often ignored but is a vital part of U.S. prosperity. Moreover, this interest is especially timely, as there are now opportunities to deepen the transatlantic economic relationship and take on a key role in leading the global economy away from the financial crisis.

The transatlantic economy—the combined market of the United States and the European Union—is the core of the global economic system. Even after the financial crisis, the United States and the EU together comprise 54 percent of global GDP. Their markets represent mature, service-oriented economies that have been the major engines for innovation in both markets and technology for the last few decades. And because of the size and attractiveness of their markets, the United States and the EU (along with its Member States) play a major role in shaping global standards and regulations.

Recently, much of the policy community has been focused on China as an economic partner of the United States. While China is clearly an increasingly important member of the global economy, along with a number of other emerging economies, the reality is that China's economic interactions with the United States are generally not of the same magnitude as those of the EU. In terms of trade, for example, China imported 85 billion dollars' worth of goods and services from the United States in 2008, and exported $348 billion. That same year, the EU as a whole (and the EU is a single trading zone) imported $467 billion in goods and services from the United States. and exported $521 billion. And while the U.S. trade deficit with China totaled $262 billion, the trade deficit with the EU was $54 billion. The U.S. EU investment relationship is even more dominant. In 2008, U.S. EU investment into the United States totaled $1.4 trillion, or just over 60 percent of all foreign investment in the United States. U.S. investment in the EU totaled $1.6 trillion, or 51 percent of U.S. investment abroad. That same year, U.S. investment in China totaled only $46 billion (one-third of what the United States invests in Ireland, for example) and Chinese investment into the United States was only $1.2 billion.

The fact that the U.S.–EU economic relationship is so focused on investment has an important consequence—because investment is about supporting or establishing companies, it is also about creating jobs. While high trade levels raise fears of jobs leaving, high investment levels usually mean the creation of more jobs. Today, about

12 million jobs in the United States, and an equal number in Europe, are the result of transatlantic investment.

The financial crisis of 2008 demonstrated that such close economic integration can have its downside. Weaknesses in one country can be transferred swiftly to its economic partners, as demonstrated by the collapse or near collapse of several European banks that had invested in U.S. subprime mortgages. The result has been weaker economies in both the United States and Europe, with unemployment in both now at close to 10 percent (although in Europe, this represents a lower increase and has less of an impact, because of the more extensive social safety net). Both the U.S. and EU are now moving out of recession, but OECD forecasts call for slower growth on both sides of the Atlantic next year (2.5 percent in the United States and 1.15 percent in the eurozone.

An argument can certainly be made that the United States should strengthen its partnership with rising economic powers such as China, and not worry about the future of its economic relations with Europe. After all, the financial crisis fully demonstrated the growing importance of the BRIC countries. They have moved into the management structures of the global economy by joining the G20, as befits their growing share of the world economy. They also seem to be recovering more quickly from the financial crisis than either the United States or the EU, and expectations for next year are for a larger increase in GDP growth than either of the transatlantic partners will experience. However, there is little to suggest that U.S. exports to China will increase anytime soon. Thus, if the current U.S.-China relationship is any indication, an increase in U.S.-China trade is most likely to lead to an even greater trade deficit. The fact that European Commission President Jose Manuel Barroso recently visited Beijing to discuss a revaluation of the yuan—almost immediately after President Barack Obama's visit with the same ambition—shows whose interests are more closely aligned with those of the United States.

China, and the other emerging economies, will undoubtedly become more important partners of the United States and Europe in the future. Their economies will evolve, and trade will become less significant as investment and services become a larger part of their portfolio. But as China adapts to WTO rules and as the BRICs take on a larger role in global economic management, the U.S. and EU would be best served by working closely together. They should send consistent messages to the BRICs about the need to strengthen markets and openness in their own economies. In an era of globalization, the impact of standards and regulations goes far beyond national boundaries, and the United States and EU will want to work together to ensure that such rules (governing, for example, regulation of financial services, or handling of chemical substances, or accounting standards) are consistent with their preferences and economic systems. Clearly, at least some of the emerging economies have very different views of markets and adherence to contracts and rules than is the norm in the United States and Europe. This is not to say that the U.S. and Europe always agree, but their general approaches are far more similar when compared to others. The BRICs should also be encouraged to think beyond their own interests as they carry out their evolving responsibilities as global economic leaders. The U.S. and EU can best send these messages by reinforcing and enhancing the openness in their own economies—rejecting the temptation of protectionism—and by assuming a strong role in leading the global economic recovery.

To do this, and to speed their recovery from the financial crisis itself, the U.S. and Europe must reinvigorate and strengthen the transatlantic economy. This will require a two-pronged approach:

- Reducing the barriers that still exist between the United States and the EU to create a "Barrier Free Transatlantic Market." By removing as many of the obstacles as possible that inhibit even greater transatlantic investment and trade, the United States and EU can spur growth within the private sector while reinforcing the creation of highly paid, high-skilled jobs. By addressing together future areas requiring regulation and standards, the U.S. and EU can boost corporate efficiencies by providing one set of rules, while moving toward ensuring that global regulations reflect their policy preferences. In no way is such a transatlantic deepening intended to be a "Fortress Atlantique," however. Others can—and should—be integrated into these efforts as they are willing to take on the obligations and responsibilities.
- Leading an effort to create green economies, with an emphasis on innovation that will create jobs and prosperity. The financial crisis offers not only hardship, but also an opportunity. By erupting just as the U.S. and EU were looking for ways to cooperate in reducing the environmental impact of our high energy consumption, including carbon emissions, the crisis can give impetus to efforts to build a new type of economy. Based on significantly less energy consumption and on creating less pollution, this economy will require innovation and new

investments in technology and infrastructure if it is to become a reality. These in turn should create new jobs and a revitalized prosperity for the transatlantic partners. It will also allow developing countries to grow economically without automatically following the patterns of high-energy consumption that have plagued the current industrialized economies, and thus benefit all of us who require a more sustainable environment.

Today is an auspicious time to begin an effort to take the transatlantic economic relationship to the next level. For the last 2 years, we have been in a form of political limbo, with the defeat of the Lisbon treaty in Ireland, the U.S. Presidential campaign and then a rather lengthy transition, and then a European Parliament election, the passage of Lisbon, and selection of a new European Commission. This phase is now drawing to a close. The Lisbon treaty, which took effect on December 1, moves some key economic powers to the Union institutions from the Member States. The European Parliament will now have decisionmaking powers in trade and agriculture, as well as in more areas related to energy and investment. Indeed, investment, which has been primarily a matter for the individual Member States, will move to some extent to the Union level, making it easier for the United States to identify its partner in discussing that issue. In addition, Lisbon gives the Union its own legal personality, making it easier to conclude agreements that do not have to be approved by all 27 Member States. By February, we hope that the new European Commission will be in place and it will be time to get down to business. In another important innovation, the European Parliament will open a small office in Washington with the aim of increasing cooperation with the Congress; such cooperation could be especially fruitful in the projects identified below.

BUILDING A BARRIER FREE TRANSATLANTIC MARKET [1]

Removing the remaining barriers to a truly open U.S.–EU market will require a multistage effort to reduce remaining tariff barriers, overcome regulatory obstacles, remove investment restrictions, and align future standards. It will be controversial and difficult; the remaining barriers persist precisely because they have been the most difficult to remove. Transatlantic trade disputes in recent years have increasingly been about regulatory obstacles, such as the unwillingness of many European countries to import genetically modified foods, and these issues have become extremely sensitive. Moreover, responsibility for areas such as regulation and investment are often split between the EU and Member States in Europe and between Federal and State (or even local) governments in the United States, so just figuring out who should be involved in discussions can be a real challenge.

In recent years, the effort to reduce barriers in the global economy has focused on the Doha Development Round. There will be those who argue that a transatlantic initiative will undercut the Doha Round, and privilege the United States and Europe. In reality, the DDR has been stalled because of disagreements between the industrialized economies and those emerging economies that are reluctant to improve access to their own markets. Any transatlantic initiative should be open to others once it is established, and it may actually provide some important leverage to move the Doha Round forward. For both the United States and the EU, the goal should be to pursue the transatlantic and the multilateral efforts to a successful conclusion. But the Doha Round, even if successfully concluded, will not address the most central issues in the U.S.–EU economic relationship. Mutual recognition or harmonization of regulations, tax differences, competition policies, divergent standards for products—these are all central to the U.S.–EU market but are not included in Doha. Their importance reflects how integrated that market is already, in that it is not external barriers, such as tariffs, but domestic policy choices, such as consumer product safety standards, that have a significant impact.

To move toward a Barrier Free Transatlantic Market, the U.S. and EU should:

- Announce a joint commitment to work toward a “tariff only” Free Trade Agreement, eliminating all duties on traded industrial and agricultural products, as an important intermediate goal. Given that most transatlantic tariffs are low and often simply have nuisance value, a focused tariff-only free trade agreement could be achieved relatively quickly. It is likely to enjoy a broader base of domestic political support. The U.S. AFL–CIO has long championed a trans-

[1] This section and the following one draw on the recently released report “Shoulder to Shoulder: Forging a Strategic U.S.–EU Partnership,” by Daniel S. Hamilton and Frances G. Burwell. Issued by the Center for Transatlantic Relations at SAIS and the Atlantic Council of the U.S. in December 2009, the report represents a collaborative project among five European think tanks, CTR, the Atlantic Council, and CSIS. It is available at the Web sites of most of these institutions, including www.acus.org.

atlantic free trade agreement, for example, and would likely accept a goods-only version. It is likely to have immediately beneficial effects on investment, profits and jobs, since two-thirds of U.S.–EU trade is intra-firm; i.e., companies trading intermediate parts and components among their subsidiaries on both sides of the Atlantic. Tariffs on agriculture have always been the major problem, but with agricultural trade growing across the Atlantic, now may be the time to take a bold step forward. Where agricultural tariffs are high, phase-out periods could be longer. Moreover, European and American agricultural sectors would still remain implicitly protected by a range of nontariff barriers that are far more important, lessening the political concerns that might accompany a complete liberalization.

- Once such a deal is negotiated, the U.S. and EU should invite others to join in certain sectors or in the overall arrangement. If a critical mass of participants develops, benefits should be extended to all WTO members on an MFN basis. This approach was successful in negotiations leading to the 1997 International Telecommunications Agreement. This may create incentives for many other countries who would like full access to the transatlantic market to lobby major developing countries such as India and China to join, as other countries are only likely to benefit after those major economies agree.
- Initiate transatlantic negotiations aimed at reducing barriers globally in certain sectors, starting with services. Such negotiations may trigger plurilateral negotiations to include other partners. An initial transatlantic initiative can be a building block for more global arrangements. On both sides of the Atlantic, services now make up more than half of GDP, and the output of the protected services sectors is larger than that of protected agricultural and manufacturing sectors. A targeted opening of services could present vast opportunities to firms and huge gains to consumers. The main market for the growth in U.S. service-sector exports has been Europe, not the Asia-Pacific region. U.S. service-sector exports to the EU have tripled since 1995, reaching $198 billion in 2008—$62 billion more than the U.S. earned from exporting services to countries in the Asia-Pacific region. EU service-sector exports to the United States have also tripled—from $46 billion in 1995 to $152 billion in 2008.
- Remove remaining barriers to mutual investment, while developing reasonable and compatible guidelines for national security reviews. Ownership restrictions on marine shipping, airlines, and infrastructure should be removed in most cases. In those situations where national security considerations might apply, there should be an appropriate review process. CFIUS, in the United States, has no EU equivalent, although several Member States do have similar processes. Although implementation is likely to remain with the national authorities, the U.S. and EU, together with the Member States, should develop guidelines for allowing foreign investment to flourish with reasonable national security safeguards. In time, such guidelines might become a global standard as other countries grapple with the balance between prosperity and security.
- Creating an open transatlantic market for air transport by allowing cabotage and removing restrictions on foreign investment. At the 2009 U.S.–EU summit both sides confirmed their intention to reach an air transport agreement that would essentially achieve this goal. Both sides should commit to completing this agreement in 2010. There are estimates that a full open-skies agreement could boost transatlantic travel by up to 24 percent, save consumers more than $6 billion annually and increase economic output in related industries by at least $9 billion a year. The impact of this one single sectoral agreement could have the equivalent economic boost on the U.S. and EU economies as the entire Doha Round.
- Boost bilateral regulatory cooperation by identifying "essentially equivalent" regulations for mutual recognition, focusing on regulatory cooperation relevant to new technologies, and ensuring that regulatory agencies have the resources and incentives to cooperate internationally. Since "behind the border" regulatory differences pose the most significant barriers to transatlantic commerce, the transatlantic partners should seek to address these differences with far greater urgency and attention. As indicated, there is considerable potential to create jobs, stimulate investment, and boost trade. U.S. and EU regulators generally have the same high standards for protecting the welfare of our consumers, our environment and our financial systems. This commonality of regulatory purpose implies that we can trust one another's regulatory systems. In October 2009 the U.S. and EU agreed to take "steps that could lead toward greater compatibility of effective and economically beneficial regulation and that could promote economic integration." The U.S. and EU have identified key sectors, including labeling, energy efficiency, and nanotechnology, where both sides

will seek to develop compatible approaches to regulation. To go farther, the High Level Regulatory Cooperation Forum should be tasked to provide specific recommendations to the spring 2010 meeting of the Transatlantic Economic Council aimed at achieving mutual recognition of compatible regulatory regimes in individual regulated sectors (toys, engines, automobiles, electrical products, etc.). If agreement can be reached that both sides are seeking "essentially equivalent" outcomes in terms of health, safety, etc., in such areas, then the legislative process on both sides should accept the regulatory decisions and standards of the other side. The process for reaching this decision should be in the hands of U.S. and EU regulators, who would always have the right to withdraw the automatic approval for products approved by the other. In addition, regulators and legislators on both sides of the Atlantic should focus on emerging areas of technology that will require regulation but where persistent disputes do not yet exist. Areas such as nanotechnology, e-health records, RFID, and "green" technologies may be easier to regulate cooperatively before differences emerge. Furthermore, financial resources must be available that allow regulators to engage in sustained, face-to-face dialogue with international partners. Such resources should not compete with the regulating agencies' core mandates for budget and staff resources.

BUILDING A GREEN ECONOMY FOR INNOVATION, JOBS, AND PROSPERITY

A transatlantic "green economy" offers an opportunity to encourage innovation and revitalization of key economic sectors, while fostering greater energy and environmental sustainability. By using the opportunity of the financial crisis to motivate governments, firms, and individuals to change their established patterns of consumption and behavior, we can not only promote economic recovery, but also reduce carbon emissions.

Both the United States and Europe bring real value to such an endeavor. The United States was long the leader in innovative, market driven environmental solutions, including the cap-and-trade system for sulphur dioxide. The U.S. has an outstanding track record in turning innovation into profitable ventures, given the right economic incentives. In recent years, Europe has become the world leader in promoting energy efficiency standards in buildings, and has pledged to make renewables 20 percent of its energy mix by 2020. At the November 2009 U.S.–EU summit, the parties demonstrated their commitment to energy sustainability and security by establishing a new Energy Council to pursue such efforts in a cooperative and coordinated framework.

To begin building such a green economy, the U.S. and EU should:[2]

- Boost energy innovation by creating a U.S.–EU Clean Energy Bank and a Transatlantic Energy Innovation Fund. The Clean Energy Bank, which would be open to others, would underwrite the risks of developing new, commercially viable technologies. It would help commercialize new technologies, some of which might be developed under the Innovation Fund. That fund would support joint research and development to accelerate the introduction on new technologies for electric mobility (car technology, batteries, infrastructure); super smart grid; renewable energy development and deployment; carbon capture and storage; and energy efficiency.
- Encourage enhanced energy efficiency, including the joint development of smart grid and carbon capture and storage technologies. The U.S. and EU must harmonize emerging regulatory frameworks on these two technologies to ensure that standards reinforce interoperability and compatibility. They should work together to develop the capacity to protect smart grids from cyber attacks and initiate a number of joint carbon capture and sequestration projects. They should collaborate on establishing energy efficiency standards, including setting higher standards for appliances, making standards associated with building products more consistent, and agree that only products with the highest efficiency ratings be eligible for public procurement.
- Head off the looming collision between climate policy and trade. Failure to coordinate these two key components of the broader system could both imperil the climate change talks and stimulate major new trade conflicts. It is untenable

[2] In addition to "Shoulder to Shoulder," this section also draws on "A Shared Vision for Energy and Climate Change: Establishing a Common Transatlantic Agenda," by John Lyman, in "Shoulder to Shoulder," the companion edited volume to this report, and on "Transatlantic Cooperation for Sustainable Energy Security: A Report of the Global Dialogue between the European Union and the United States," by Franklin Kramer and John Lyman (Washington DC: CSIS, 2009).

politically to enact cap-and-trade systems that impose costs on companies operating in the U.S. or Europe only to have them shift jobs and pollution to countries such as China or India, which are reluctant to embrace binding emission reductions. Yet potential remedies, such as imposing additional ″border charges″ on carbon-intensive imports and subsidizing domestic producers, could lead to retaliation or WTO challenges that might undermine climate and trade agreements. The U.S. and EU should demonstrate leadership by working with G20 partners to develop a "Green Code" of multilateral trade disciplines and consider new trade negotiations to address these potential commercial and climate trade-offs.

- Implement the commitment at the October 2009 TEC meeting to establish a new U.S.–EU innovation dialogue to accelerate efforts to spur growth, productivity and entrepreneurial activity, including by sharing best policy practices and ways of improving the policy environment for innovative activities in both markets. The Dialogue will establish with stakeholders a work program identifying priority areas and sectors for action, including innovation policy, information and communication technologies, advanced technologies, health information technology, and clean energy technologies.
- Ensure that the new U.S.–EU Energy Council develops a focused agenda and effective working groups. At the 2009 U.S.–EU summit, a ministerial-level U.S.–EU Energy Council was established to deepen the dialogue on strategic energy issues; improve energy security; promote cooperation in achieving climate change goals; and further strengthen research collaboration on sustainable and clean energy technologies. This is a broad agenda, and much will depend on the working groups addressing some key issues where progress can be made (such as smart grids, carbon capture and storage, etc.). The Energy Council does have a regulatory role, and this should work cooperatively with the Transatlantic Economic Council rather than becoming competitive. The Energy Council must also provide for active involvement of U.S. and European legislators and the business community.

REINVIGORATE THE TRANSATLANTIC ECONOMIC COUNCIL[3]

To achieve these aims of building a barrier-free transatlantic market and a transatlantic green economy, the U.S. and EU must reinvigorate the Transatlantic Economic Council as the premier forum for discussions about the transatlantic economic relationship. Created as a result of a German initiative in 2007, the TEC brings together the principal Cabinet officers, White House officials, and European Commissioners for a meeting twice per year. In its initial conception, the TEC was to provide political impetus to solve regulatory issues that could not be resolved by the High-Level Regulatory Cooperation Forum and other bodies. Over the past 2 years, however, the TEC became overly focused on preexisting trade disputes, to the point that its last meeting during the Bush administration was dominated by the U.S.–EU dispute over chlorine-washed chickens. The first TEC under the Obama administration was used primarily to set a general agenda for the next few years, including pledging to initiate an innovation dialogue. But many of those attending from the European side were effectively "lame ducks" as the new European Commission had not yet been announced, with the exception of Commission President Barroso. In spring 2010, the TEC meeting will include new European Commissioners. Commissioner Karel de Gucht, who has held the development portfolio, will have the trade and investment portfolio, which now includes the TEC. With the U.S. and EU having finished their government transitions, the spring 2010 meeting presents a golden opportunity to revamp the TEC by making both substantive and institutional changes.

In terms of agenda, the TEC should focus on strategic issues in three areas:

- Promoting economic recovery and growth, with a focus on building a green economy and boosting innovation. The TEC should ensure that government interventions are well-coordinated, mutually supportive, and of limited duration. The TEC should help coordinate "exit strategies" if necessary, and be a watchdog on protectionist impulses.
- Coordinating approaches to global economic governance, effectively becoming an informal G2 for U.S.–EU discussions prior to the G20 meetings. With the weakening of the G8, there are few fora left where the U.S. and EU can develop a

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[3] This section draws on "Shoulder to Shoulder: Forging a Strategic U.S.–EU Partnership and also on Resetting the Transatlantic Economic Council," a report of the Atlantic Council of the U.S. and the Bertelsmann Foundation (Washington DC, 2009, available at www.acus.org).

strategic approach to the new, larger institution and the issues of global economic management.

- Advancing efforts to create a barrier-free transatlantic market, including through pursuit of several regulatory "lighthouse" projects. These could include financial services regulation, e-health regulation, intellectual property rights, and many others. Of particular interest might be those emerging industries and technologies where little regulation yet exists.

To address these issues effectively, the TEC must:

- Maintain a strategic focus. This might be best accomplished by establishing a two-level TEC; the ministerial-level Council that will usually address issues on a strategic level, and a series of sub-Councils at the next level down to deal with specific issues.
- Expand the circle of those engaged, especially by bringing in key legislators and the Transatlantic Legislators' Dialogue. The very dense nature of transatlantic economic relations means that many constituencies are affected. None of the obstacles that need to be overcome—tariffs, regulatory, investment barriers—can be addressed without the cooperation of the business community or legislators. In the past, both the Congress and the European Parliament have passed measures that created barriers to transatlantic economic interaction; Sarbanes-Oxley is a prominent but not isolated example. Given the new range of powers the Parliament will receive under Lisbon, it is even more important than ever that both the Congress and European Parliament be an integral part of the TEC. Legislators could develop a regular mechanism for identifying pending legislation that might have an extraterritorial impact and that should be examined more closely. By providing such a report regularly to the TEC and engaging key committee chairs in regulatory issues of their jurisdiction, legislators could become an essential part of the TEC dialogue.

Senator SHAHEEN. Thank you very much.

And I am going to start with where you ended and ask you a little bit more about how you see the Lisbon Treaty affecting the U.S.–EU relationship, and do you think that there was a message in the EU selecting Catherine Ashton, a former EU Trade Minister, as the first-ever High Representative for Foreign Affairs and Security?

Did you take that as a signal that there was increased interest on the part of EU governments in letting the—EU member governments in letting the EU take the lead on trade and economic issues?

Dr. BURWELL. No, but I did not take it as not doing that either. I would take it as quite separate. I think the selection of President Van Rompuy and High Representative Ashton really had to do with a lot of internal EU bargaining.

Certainly, there are those, and I would argue this, that the relatively low profile of these two individuals prior to their appointment—and that has nothing to do with their competence or how they will handle their jobs—is indicative of at least some heads of European countries wanting to remain the lead interlocutors with the United States.

However, I think that in the selection of Catherine Ashton, the EU picked someone who met some criteria that was set. There has been a great deal of discussion, as you may know, about the gender balance among the new European leaders. They did pick someone who has, from my inquiries, an excellent reputation here in Washington with the economic officials with whom she has dealt and someone who is known for being very positive in terms of transatlantic relations.

They had to expect that she would, as she has in her initial statements, say very good things about the transatlantic relationship. So I think that we certainly can look forward to working with

Ms. Ashton—with Catherine Ashton—and working very closely with her in a very positive transatlantic environment.

Senator SHAHEEN. You and Mr. Maibach both talked—had a number of very specific recommendations for the Transatlantic Economic Council, and I wonder if you have specific thoughts about how we should approach adopting some of those very specific recommendations, and either of you?

Dr. BURWELL. Well, we were in Brussels last week, Dan Hamilton and myself, my coauthor, and we met with the chief de cabinet of Commissioner Karel de Gucht, the Belgian Commissioner, who currently has the development portfolio, but in the new commission will have the trade portfolio.

Interestingly, the trade portfolio now also includes investment and also includes responsibility for the TEC. So we have kind of directly put forward our recommendations. They were interested to hear them. I mean, obviously, he is not in the job yet. He hasn't had his hearing yet. So there is no commitment there.

But I do think that my impression is that on both sides of the Atlantic, the people involved in the TEC are actively looking for ways to reinvigorate it. The last TEC meeting, most of the European participants were lame ducks, in effect, except for President Barroso. So I think that the next one is the one where everyone kind of expects to see real plans for a new, reinvigorated TEC. And I think they are looking to institutions not only the Atlantic Council, but certainly the European-American Business Council and others, such as the TABD, for suggestions as to how they might best move forward.

Senator SHAHEEN. Thank you.

Mr. Maibach.

Mr. MAIBACH. Yes. That is a good question, and I agree with some of the things that were just said.

I'd add that the TEC could be more fully staffed. If you are in the White House supporting the G20 and G8 talks, as well as all the other responsibilities that Mr. Froman and his colleagues have, they should be appointing senior-level civil servants to support TEC goals, if you will. Delegate that to those departments' key tasks. They must then become accountable for their work.

And then enlist industry support and expertise in the work of those departments, whether it is Commerce, Energy, State, et cetera. And then the White House adopts more of an oversight role rather than having the responsibility for the tasks themselves. I think delegation is going to be a key for the TEC here.

Also, one or two people might be assigned to the TEC work, for example, on the U.S. side, from OMB. We see a White House that has so many things going on that they can probably use a few extra hands on some of these things.

Senator SHAHEEN. Thank you.

Before I get to Mr. Howland, I am going to ask if either of you would like to speak to the role that you think small businesses can play in expanding and deepening the transatlantic economy, either or both?

Mr. MAIBACH. Yes. One of the things that we have had since 1981 in the United States is the R&D Tax Credit. It expires every

3 years. It should be made permanent. And the U.S. credit does not include two things that many credits around the world do include:

No. 1, the U.S. credit doesn't include joint R&D between companies. And two, it does not include joint R&D between companies and universities. As a matter of fact, the OECD ranks the U.S. credit as the 17th most valuable R&D credit in the world. The U.S. credit was No. 1 in 1990.

If you are a big company and you are doing some joint R&D with a small business, that doesn't count toward the credit. This is something Congress could do to help small business right away. If IBM does more joint R&D with enterprises that you have never heard of, it might really help those smaller firms.

That is one idea that might be very useful. I will leave it at that.

Senator SHAHEEN. Dr. Burwell.

Dr. BURWELL. My comment would be that, first off, I very much agree with what Mr. Howland said about small and medium enterprises being engines of innovation, and I think that it is extremely healthy for the relationship for American small and medium enterprises, small businesses to be present in Europe, not just because of the jobs that they then create back here and the investment possibilities. But because some of us who have watched some of the major European economies—particularly the German, but not just that—over the last few years have seen how difficult it can be for their small businesses with a few exceptions, such as some of the specialized German steelmakers and things like that.

It is harder for them often to get loans, things of that nature, and I think there is an illustrative value, if I can put it that way, to have American small business active on the global marketplace.

Senator SHAHEEN. Thank you.

Mr. Howland, can you talk a little bit more about some of the obstacles that your business faced, and you faced, as you were trying to get into the European market? You had a good list when you were talking earlier with Under Secretary Hormats.

And can I ask you to turn your microphone on?

Mr. HOWLAND. Sorry. I think the first point that is hard for people who are immersed in this conversation to realize is a small business person has absolutely no clue to begin an export program because we don't have a generational understanding of export businesses.

If you live in Luxembourg, you have been exporting for five or six generations at a minimum if you have a business. And that culture creates an understanding of the process and the resources that are available. To small entrepreneurial American businesses, this is a mystery. This is a closed book.

And it takes a number of years at a minimum even to understand the resources of the U.S. Commerce Department, the Commercial Service, what the embassies can do for you. And I think you can't underestimate that unknown is a barrier to entry into export. And unless you can break that down and create some kind of portal to begin that process, people are going to defer it because the domestic market is big enough for a small business to appear to be the first priority.

And that is a mistake small business people make, but it is inevitable given these other barriers.

Senator SHAHEEN. And you talk about a portal. Can you be a little more specific about ways in which you think Government could be helpful as small businesses are thinking about how to export?

Mr. HOWLAND. Small business, everyone who works in a small business wears multiple hats. You don't get to specialize in this. As a consequence, you are always pressed to complete all of your responsibilities.

The reason I raise this proposal of using the Small Business Innovation and Research grant program is it is a fully competed program, and the way that would work is, a topic is like a contest. And the way that program works is very smart people write topics for proposals. That will unleash an outpouring of excellent proposal ideas. It creates the innovative process; gets it started.

And it creates a focus for the small business player and a justification and a reason for pursuing an idea that they no doubt already have but need a focus to get that going. And the process, if it was worked through Commerce, would give a perfect opportunity for Commerce to show that small business person what the rest of the resource package is. Because unless you have been involved in the export process, you don't know about it.

Senator SHAHEEN. Thank you.

Senator Risch.

Senator RISCH. I am going to pass. Thank you.

Senator SHAHEEN. OK. I want to go back, and for any of you, to the question that I asked Under Secretary Hormats about coordination of Government agencies and efforts to look at trade, particularly when it comes to the European market.

Do you think there are ways that we should be coordinating better the efforts, and how would you—you have talked about the TEC. Are there other things that we ought to be looking at that would better coordinate some of those efforts, for anyone who would like to address it?

Dr. BURWELL. Let me say something about two not apparently related processes. One is along with the TEC, we now have the new Energy Council. The Energy Council has three mandates. One is energy security. One is research and technology, and another one is energy-related regulatory.

And that last one in particular overlaps significantly with the TEC, and we need to deconflict that in some way. There are different institutions involved right now in these two councils. And so, I think we need to have an honest conversation about do they both claim the regulatory mandate and do they find a way to do that together, or does the regulatory mandate go in one or the other? And what are the consequences in terms of who belongs to—which agencies belong to which of the councils?

The other challenge that I think that we have, and I am sure that we need additional coordination between State, Commerce, et cetera. But I think since so much depends upon regulatory agencies right now in this relationship that one of the things we really need to focus on is how do you take a regulatory agency like the FDA with the Consumer Product Safety Commission or something like that, which is domestically focused, and where the political oversight is really focused on protecting American consumers, environment, and encourage them to take the time and give them the budget to actually travel overseas.

We have hosted meetings on U.S.–EU energy technology issues and discovered that EPA, for example, or at least certain offices of EPA, have an extremely limited budget for overseas travel. And something as simple as that makes it extremely difficult for them to even think about coordinating with the EU.

I think if Congress were to, in some of the reports that it requires from these agencies, ask them what they are doing to coordinate abroad and provide them with the resources, frankly, to do that, resources that don't compete with the resources they already have—so they are robbing Peter to pay Paul—I think that would be of enormous help.

Senator SHAHEEN. Well, can you talk a little bit more about you suggested a barrier-free transatlantic market and a place where we might start. Can you talk a little bit more about how you see that working? And as you know and as you pointed out, that is an issue that often raises controversy when we are talking about barrier-free trade.

Dr. BURWELL. I think the big difference to understand or distinction to understand is that the United States and the European Union economies are both mature, service-oriented economies. This is not the same thing as doing a free trade agreement or a no tariffs agreement, if I can put it that way, with a country that has workers who are paid significantly less than American workers or where health and safety standards are significantly less.

In fact, you can certainly argue that in some areas, European regulations are much stricter. It is probably about equal overall. The current trade between the United States and the European Union—a lot of it is intra-firm trade, or it is between major firms and their subcontractors. So by doing away with the tariffs on the goods that go back and forth, you actually would make it more efficient for many of those companies that are European and American for the most part.

On agriculture, we actually—when we were discussing this particular recommendation, we discussed agriculture quite a lot. There is more agricultural trade now across the Atlantic of more variety. And it seemed to us that there are certainly some very sensitive products, and you could have a longer time period before you removed all of the barriers, all the tariffs on those.

Our proposal does not get rid of regulatory obstacles necessarily at that stage. So it would still be possible if you have different health and safety standards on certain foods, for example, to maintain those barriers. Eventually, we would hope that we would find a regulatory solution to that, too, that there would be some agreement on that.

But as a first step, to think about a tariffs-only free trade agreement between the United States and the European Union I think would make a political statement that we want to move forward and deepen the relationship. It would provide a small bump for the economies, not a huge bump. But I think it would send the right type of political statement, and I think it is, at this point, doable.

Senator SHAHEEN. Mr. Howland, would that have been helpful to you? And then I am going to ask Mr. Maibach what your thoughts are and where you think the European-American Business Council would be on that?

Mr. HOWLAND. I think that small business and big business doesn't always have exactly parallel views of some of these trade issues. In particular, regulation and specifications, you know, the diversity of European requirements is actually an advantage and an opportunity for a small business. A very large requirement that would be EU-wide is going to be competed so aggressively by a large business it will probably exclude small business opportunities.

It is not a—please, I don't want to suggest that in markets like energy and agriculture, your goals are still appropriate, but the diversity of the European market. I mean, we find that working standards issues, regulatory issues is extremely cooperative. We can be invited to a standards group as an ISO participant. The Europeans are not exclusionary.

I don't have the same experience, however, that I think we are probably not as inclusive of Europeans as they are of us. And I think that will be a bad thing long term if we don't remedy that.

Senator SHAHEEN. Mr. Maibach.

Mr. MAIBACH. Yes; thank you.

I have two comments. One is about the TEC and regulatory collaboration. Regulations can either be barriers or they can be enablers of innovation. By having products become horizontally available across borders, if you will. That is one point.

The other one I wanted to make is—and this is underappreciated, I think, in Congress. Tax policy is really trade policy in many ways. I will give you some examples.

The EABC has copies of our study in the back of the room called "The Atlantic Century" that we issued earlier this year. The United States has the highest corporate tax rate in the world. We are tied with the Japanese at 39 percent. Ireland has about a 9-percent rate. It depends on the numbers you look at, but ours is very high.

We are also the only country in the world with international taxation of foreign profits. This is related to the U.S. foreign source tax credit sometimes called the "deferral issue" that was raised again this year as a possible source of U.S. revenue. Taxation occurs wherever the sale is. But if you are going to tax the money when it comes back to the USA, it will not usually be repartiated. It will stay where it is and be reinvested.

If you are a small business person, you look at that and say, "Is this really worth it?" Because I don't have a plant to invest it in, I have to bring profits back to the United States. Am I going to pay the differential between the highest corporate tax rate in the world and wherever I am selling abroad?

The third thing is we have no "VAT forgiveness" because we don't have a VAT. If you are an exporter, in most every country in the world you have a value added tax—VAT. And if you export, you don't have to pay it. We don't do it that way here. I don't think we can get into this topic right now, but that certainly is an export promotion Tax Code feature that we don't have.

And we usually use 5-year depreciation on capital investments. I spent 18 years in the semiconductor industry. If you build a chip fab in most countries, they allow you to expense it in 1-year depreciation rather than 5. U.S. tax treatment is a major disincentive to export out of this country.

And finally, the value of the U.S. R&D Credit that I mentioned. I think we ought to double it from 20 to 40 percent. That would make the U.S. credit the nineth most valuable R&D Credit in the world, rather than No. 17. And we must extend it to include university collaborations, as well as company-to-company collaboration.

So there are lots of things in the Tax Code we can improve to create wealth. The average corporate tax rate in the OECD—29 industrial nations—is 28 percent. That is 11 percent lower than the U.S. corporate tax rate. So we don't have a climate here for treating capital to enhance exports and innovation that we should.

Senator SHAHEEN. Thank you.

Before we close, and I do think we are getting into a vote time here shortly. But Mr. Howland, you talked a little bit in your written testimony about the ITAR regulations, and they came up with Under Secretary Hormats.

Can you expand on what you think some of the challenges those ITAR regulations are for American businesses? And, I don't know, either Mr. Maibach or Dr. Burwell, if you would have anything that you would like to add with respect to whether we should look at reforming those ITAR regulations?

Mr. HOWLAND. I think that your first panelist really identified the issue that they are, like many things, a regulatory framework that is really cold war. And it covers the waterfront, everything involved.

And as we have pointed out, it is a very peculiar situation when you know that competitive products are offered by your European competitors in a very free trade environment, and your products can't be exported without license, it is a peculiar situation when the regulation is just simply obsolete. It is not pertinent to the current situation.

And even where a license is possible, that licensing process is not a straightforward one. It is not—particularly for small companies—it is not an easy thing to execute. Commerce-related licenses are more straightforward, and anything that has to go to State, the kind of rule of thumb is, "Boy, do we really want to try to do that?" It is an unintended barrier.

Senator SHAHEEN. Thank you.

Dr. BURWELL. The commission has recently passed a new directive on defense procurement, which will go into effect over the next few years in the Member States. And this creates open tenders. There cannot be any discrimination among European firms for certain parts of defense procurement by ministries of defense, et cetera.

In the past, there wasn't necessarily open procurement, and U.S. companies did very well just simply networking and having good products. With ITAR having caused, shall we say, some discomfort among European MODs, I mean, in making it difficult for them to use products, et cetera, there may be—the political dynamic is that if ITAR continues to be difficult, there may be less incentive to make sure that a European—no discrimination against European firms also means no discrimination against United States firms as this directive takes effect.

So I think that we are at a point where not only because of the difficulties that it poses for our companies, such as Mr. Howland, but also because of the political dynamic that it creates across the Atlantic, that it probably is a good time to revisit ITAR.

Senator SHAHEEN. Thank you.

Mr. Maibach, did you want to add anything to that?

Mr. MAIBACH. I agree with what has already been said. I think that we have to collaborate with our allies. I think all through the 1980s and 1990s, we learned with export control, certainly in semiconductor technology, that drawing lines just around the United States when these technologies move everywhere so quickly does not work. Semiconductors are like water these days. You can get them in a greeting cards.

You must focus just on key technologies. Usually, they are multiple technologies combined in a final product, rather than just a chip or a single software program. Let's say a supercomputer. Who makes those? You have to advance mutual enforcement of those rules with your allies, if you wish to have a positive impact. If you don't do this together, you probably are not going to be successful. You are just going to hurt your own companies.

And so, whether it is NATO or some other venue, we probably ought to have much more collaboration on what we are going to control and agree on that. And as Fran said, we want the European market to become a true single market. Most companies say that they have 27 European markets for defense. They would like to have a single market, and we would like to have that, too.

This might be a way, as Europe changes, to foster new ways for NATO to advance collaboration more deeply.

Senator SHAHEEN. Thank you.

And finally, Mr. Maibach, I couldn't get Under Secretary Hormats to comment on Copenhagen, but given that you raised carbon metrics, maybe I can get you to comment on it. You did point out that that would be helpful for companies as they think about the U.S. market since they are operating in the EU market, where they do have metrics.

Can you talk about how your member companies are looking at the negotiations in Copenhagen and what they hope might be the outcome of those negotiations?

Mr. MAIBACH. Well, we have 70 companies, and we have at least 37 opinions, I would imagine. I think what I have learned in some 25 years in industry is that incentives and collaboration work a lot better than regulation and taxation for motivators of change.

And to that point one of the great things about the United States and its wealth creation machine for 200 years is—if you allow for collaboration to be fairly free and have incentives, you can make money. You can use tax credits, et cetera. If you allow for that to happen, and you get a lot of clues from and industry insights into how to make that happen, you will be more successful than something designed by a regulatory committee and imposed.

The reason is because there are so many differences in business models. I was talking yesterday to an executive of a Midwest electric utility. He was saying that because their plant configuration—

one nuclear plant, several coal plants—versus some on the coasts who have more nuclear and less coal—that a one-size-fits-all cap and trade bill is so much more difficult on his particular State and how they have configured their utility than in other states.

So one-size-fits-all, whether it is Copenhagen or a U.S. congressional act, is very different than incentives for people who agree on key goals but who are allowed to get there their own way. In summary, I would say that providing incentives to reach targets, the cap part, I think there is a lot of unanimity about that. "I would like to move 20 percent down over 5 years."

Allowing people to have different ways to get there and rather than use a unidimensional system is going to be helpful because some are going to pay a lot more in taxes than others based on the regulatory world in which they live.

That may not be very helpful. But I think the more you listen to industrial groups, the more you will allow innovation to get out of this mess rather than regulation. So I would focus on incentives.

Senator SHAHEEN. Thank you.

Would either of our other panelists like to comment on that? You are going to take a pass. Smart. [Laughter.]

Well, thank you very much.

This has been very enlightening. We look forward to continuing to work with each of you as we think about how to better promote our transatlantic relationship between the United States and the EU.

So thank you all very much for being here.

The hearing is adjourned.

[Whereupon, at 4:05 p.m., the hearing was adjourned.]