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ON STRENGTHENING THE TRANSATLANTIC ECONOMY:
MOVING BEYOND THE CRISIS

Madame Chair, Senator DeMint and Members of the Senate Foreign Relations Committee 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 U.S. 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% 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 U.S. 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 UK 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 G-20 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 EU 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, co-chaired 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 co-chairs a U.S.-Russia sub-working 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 three 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 policy-makers 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% 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 tobligations.

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 U.S. and EU 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 decision-making.

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 inter-parliamentary 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 six 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.