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Statement of the U.S. Chamber of Commerce

ON: The Need to Revitalize Transatlantic Trade Relations

**TO: U.S. House Foreign Affairs Committee
Subcommittee on Europe, Eurasia, Energy, and the Environment**

**BY: Marjorie Chorlins
Vice President, European Affairs
U.S. Chamber of Commerce**

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1615 H Street NW | Washington, DC | 20062

The Chamber's mission is to advance human progress through an economic, political, and social system based on individual freedom, incentive, initiative, opportunity, and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations. The Chamber is dedicated to promoting, protecting, and defending America's free enterprise system.

More than 96% of Chamber member companies have fewer than 100 employees, and many of the nation's largest companies are also active members. We are therefore cognizant not only of the challenges facing smaller businesses, but also those facing the business community at large.

Besides representing a cross-section of the American business community with respect to the number of employees, major classifications of American business—e.g., manufacturing, retailing, services, construction, wholesalers, and finance—are represented. The Chamber has membership in all 50 states.

The Chamber's international reach is substantial as well. We believe that global interdependence provides opportunities, not threats. In addition to the American Chambers of Commerce abroad, an increasing number of our members engage in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Introduction

Good afternoon, Chairman Keating, Ranking Member Kinzinger, and distinguished members of the subcommittee. My name is Marjorie Chorlins, and I am Vice President for European Affairs at the U.S. Chamber of Commerce. Thank you for this opportunity to testify on current trade policy disputes between the United States and the European Union, as well as the urgent need to put transatlantic economic relations on a firmer footing.

Why the Transatlantic Relationship Matters to Business

The transatlantic economy remains by far the most successful bilateral commercial partnership in the world. Earlier this year, the Chamber, in partnership with AmCham EU and Johns Hopkins University, released the *Transatlantic Economy 2019* report, which outlines the trade, investment, and jobs impacts of our commercial relationship with Europe.

A few topline facts from the report underscore that the United States and the European Union are the two largest and most integrated economies on earth -

- More than \$3.75 billion in goods and services flow across the Atlantic each day.
- Two-way trade and investment supports more than 16 million jobs.
- The EU is our single largest trading partner in goods and services and is the largest consumer of U.S. exports.
- We are each other's single largest source and recipient of foreign direct investment: Half of all U.S. companies' investments abroad are bound for Europe and vice versa.

There are innumerable opportunities to build upon this solid foundation and strengthen our partnership. There are equally grave risks if tensions continue to escalate unabated.

The Current State of the Relationship

The relationship between the United States and European Union is unsettled on multiple fronts, including disagreements on such geostrategic issues as the Paris climate accord, Iran, Cuba and Russia. For purposes of this testimony, I will focus solely on the commercial aspects. As members of the Subcommittee are aware, the Trump Administration applied tariffs on imports of EU steel and aluminum on June 1, 2018. These tariffs were imposed using the national security-focused provisions of Section 232 of the Trade Expansion Act of 1962, despite the fact that most EU countries are NATO members and treaty allies of the United States. These tariffs affect \$7.25 billion in imported steel and aluminum from Europe. In response, the EU imposed retaliatory tariffs on approximately \$3.2 billion of U.S. exports to Europe, focused on politically sensitive items including motorcycles, bourbon, blue jeans, and orange juice. If the steel and aluminum tariffs are deemed to be WTO-inconsistent, the EU plans to impose retaliatory tariffs on \$4 billion worth of additional U.S. exports.

When the steel and aluminum tariffs were announced, Chamber CEO Thomas J. Donohue said, "These new, unlawful, tariffs will directly harm American manufacturers, provoke widespread retaliation from our trading partners, and leave virtually untouched the true

problem of Chinese steel and aluminum overcapacity. Alienating our strongest global allies amid high-stakes trade negotiations is not the path to long-term American leadership.”

Unfortunately, those predictions have come true. The imposition of tariffs on our closest allies has undermined American credibility and economic leadership. Europeans are angered to be deemed a national security threat to the United States. Moreover, these unilateral measures have hindered our ability to partner effectively with Europe — and others — to address our common challenges in the global economy.

The Administration’s continued threat to impose 25% tariffs on imports of autos and auto parts from Europe is also of grave concern. We trade nearly 10 times as much in the auto sector as we do in steel and aluminum across the Atlantic. As such, new tariffs would mark a tenfold escalation of the trade dispute. According to the Center for Automotive Research, these tariffs would add nearly \$7,000 to the price of each car or truck sold in America and lead to the loss of more than 700,000 American jobs.¹ As Chamber CEO Thomas J. Donohue has said:

“The U.S. Chamber strongly opposes the administration’s threat to impose tariffs on auto imports in the name of national security. If this proposal is carried out, it would deal a staggering blow to the very industry it purports to protect and would threaten to ignite a global trade war.

In fact, the U.S. auto industry is prospering as never before. Production has doubled over the past decade, it exports more than any other industry, and it employs nearly 50 percent more Americans than it did in 2011. These tariffs risk overturning all of this progress.

This isn’t about national security. The administration has already signaled its true objective is to leverage this tariff threat in trade negotiations with Mexico, Canada, Japan, the European Union, and South Korea. These allies provide nearly all U.S. auto imports and are among America’s closest partners. Neither they nor these imports endanger our national security in any way.

The president’s Section 232 authorities should not be abused in this way, and doing so only encourages other nations to do likewise.”²

In short, this is an inappropriate and unlawful use of this statute.

While a final decision on auto tariffs has been postponed for six months, the threat remains real and continues to erode trust between the United States and Europe. The EU has already preparing a list of more than \$23 billion worth of U.S. exports that would be immediately subject to retaliation should the Section 232 auto tariffs be imposed. Given the increasingly tenuous state of global economic growth, such an expansion of trade tensions between the world’s two largest economies would have a devastating effect.

¹ https://www.cargroup.org/wp-content/uploads/2018/07/NADA-Consumer-Impact-of-Auto-and-Parts-Tariffs-and-Quotas_July-2018.pdf

² <https://www.uschamber.com/press-release/us-chamber-statement-potential-auto-tariffs>

It is important to note that while the United States has been applying new tariffs on America's friends and allies, the European Union has been negotiating new market opening agreements with dozens of its major trading partners. The EU concluded a new Economic Partnership Agreement with Japan that gives European producers and consumers preferential access to the Japanese market, with particular benefits for automakers and farmers. The EU has also concluded a new free trade agreement with Canada and upgraded its existing agreement with Mexico. In a number of markets, European exporters enjoy better access than U.S. companies do.

When it comes to China, the U.S. government, the Chamber, and Europe are aligned on the challenges. For too long, China has insisted on forced technology transfers or the formation of joint ventures for American or European companies to do business in China. The Chinese state often intervenes to provide unfair subsidies for Chinese businesses, making it hard for foreign investors to compete. Finally, China's state capitalist model and its active participation in the economy through dominant state-owned enterprises is fundamentally at odds with our market economy principles.

In a recent policy paper, the European Commission identified China for the first time as a "strategic competitor" and "systemic rival," underlining the need to work with the United States to safeguard core values. The United States must embrace this opportunity to work closely with Europe to update the rules of the World Trade Organization to ensure China abides by its international commitments. We should also pursue joint cases against China when they fail to meet those standards.

Pursuing a unilateral, tariff-driven approach is not the optimal way to effect lasting change in China. A coordinated approach working with Europe and other partners including Japan and Canada would be much more powerful.

Another potential flashpoint in the relationship concerns tax policy. Several European countries including France, the UK, Spain, and Italy are considering discriminatory digital services taxes that would disproportionately affect large U.S. companies. These measures would explicitly target certain sectors and tax revenues rather than profits. This would set a dangerous precedent.

In light of the changing nature of the global economy, an informed and inclusive discussion on how to modernize the international tax system is in order. Consideration of any measures to modernize the international tax system should occur in multilateral settings like the OECD and should be adopted only after constructive dialogue with stakeholders. Unilateral actions threaten transatlantic economic interests including bilateral trade and investment, erode trust, and undermine prospects for international agreement.

We look forward to working closely with Congress and the Administration to encourage a global solution to the challenges posed by digitalization and to avoid the Balkanization of tax policy that would have significant negative impacts on both U.S. companies and the revenue sent to the U.S. Treasury.

Building a Positive Agenda

The Chamber was among the earliest and most vocal proponents of the Transatlantic Trade and Investment Partnership negotiations. We regret that those negotiations were not concluded successfully, but remain eager to find ways to strengthen our relationship. Given the urgent need to make progress, we are encouraging both sides to proactively engage to remove tariff and non-tariff barriers to trade and investment, and to work more collaboratively on third country issues.

We also understand that any conversation about trade with the EU must tackle politically sensitive issues such as agriculture. It is understood that a trade liberalizing agreement that doesn't cover agriculture is a political non-starter in the Congress.

Last July, President Trump and European Commission President Juncker agreed to work towards a positive trade agenda that would lower transatlantic tariffs, remove many non-tariff barriers, and provide for closer cooperation on shared challenges such as the need to reform the World Trade Organization and tackle China's unfair business practices.

We are encouraged that the Administration has returned to the negotiating table. It is critically important that we find ways to work with our European partners rather than continuing down a dangerous path of tit-for-tat protectionism. As economies that together account for one-third of the world's GDP and half of global personal consumption, the United States and Europe together can shape the rules of global trade for the 21st century as no others can.

With that in mind, the Chamber has submitted comments to both the Office of the U.S. Trade Representative as well as the European Commission outlining ways that the business community thinks the United States and Europe can boost economic growth, foster the creation of good jobs, and enhance competitiveness through a reinforced partnership.

Here are a few of our suggestions.

U.S. and European policymakers should seize the opportunity to lower tariffs and non-tariff trade barriers—and oppose moves to raise tariffs or impose managed trade measures. While the Chamber advocates for comprehensive trade agreements that address not just trade in goods but also services, investment, procurement, and other issues, tariffs on industrial goods have recently been the chief focus of U.S. and EU officials.

Eliminating such tariffs would bring real benefits. Tariffs between the EU and the United States are comparatively low, but eliminating them could nonetheless generate substantial economic gains simply because the flow of commerce is so vast. As the Europe Center for International Policy Economy (ECIPE) wrote in a report entitled, *A Transatlantic Zero Agreement*, “The EU and U.S. economies are big, and bilateral trade is to a large degree composed of intra-firm trade. Both these factors suggest potential trade gains of great magnitude.” The organization found that a U.S.-EU trade agreement that eliminated tariffs only

would boost U.S. exports to the EU by as much as \$50 billion and would increase U.S. GDP by well over \$100 billion.

U.S. and EU policymakers should also continue to promote discrete regulatory cooperation initiatives. The two sides should try to establish common standards where none yet exist and where both sides are considering new rules. For example, as the automotive industry shifts its focus to electric and autonomous vehicles, there are ample opportunities for transatlantic cooperation, including the development of smart infrastructure, new communications systems, and safety standards. Whenever possible, the U.S. and EU should also pursue mutual recognition of existing regulations in the many cases where our different approaches meet common regulatory objectives.

The two sides should also expand existing regulatory cooperation and data-sharing practices in the life sciences sector, covering pharmaceuticals, medical devices, and biotechnology. Such cooperation can proceed outside of a formal trade agreement, and should draw wherever possible on the work of voluntary, market-driven, and internationally recognized standards. Moreover, the United States and Europe should continue to support high-level intellectual property standards and work together to strengthen IP rights in third countries.

Build on our Shared Strengths

The United States and Europe are pacesetters in digitalization. As we develop strategies on cybersecurity and Artificial Intelligence, the two sides should continue to develop common approaches reflecting our shared democratic values and commitment to transparent multi-stakeholder processes. The Privacy Shield that facilitates cross-border data flows while protecting personal privacy must be re-affirmed to ensure commercial data can continue to be lawfully transferred across the Atlantic.

Moreover, we are encouraged that the Justice Department and the European Commission have begun negotiations under the terms of the CLOUD Act to ensure that law enforcement agencies have legal grounds to access personal data when necessary. Both sides must take steps to ensure the Internet remains globally connected and interoperable. As other markets consider approaches that would require data localization or advance digital protectionism, transatlantic cooperation to counter these measures is essential. Our interdependent digital economies and security depends on the ability of data to move across borders efficiently and safely.

In the energy sector, Congress should work with the Administration to develop rules that continue to facilitate exports of liquefied natural gas (LNG) to Europe. Meanwhile, Europe should step up efforts to build the necessary infrastructure to import LNG and to transfer it across the continent. This partnership is critical to countering Europe's overreliance on Russian energy. In the year since Presidents Juncker and Trump last met, the EU has increased its imports of LNG by over 270%, albeit from a very low base. We must build on this momentum.

Small and medium-sized companies stand to benefit most from continued efforts to improve ties between the U.S. and Europe, as they are most adversely affected by trade barriers. Both the U.S. and EU should build on existing initiatives to educate smaller firms about the

opportunities of transatlantic trade and make additional resources available to enable these firms to leverage them.

The U.S. and Europe also should work closely with stakeholders to create incentives to boost the circular economy and promote resource efficiency. Transatlantic cooperation on sustainable agriculture, energy, waste and water policies will make it easier for American and European firms to lead the way in addressing key resource challenges and a changing climate while also promoting economic growth and prosperity.

Finally, transatlantic defense and security cooperation remains a cornerstone of our alliance. The 70th anniversary of NATO's founding and the 75th anniversary of the D-Day landings are poignant reminders of that important fact. In light of a fast-changing global security environment, including new threats in the form of cyber-attacks and disinformation campaigns, transatlantic cooperation remains essential. As the EU works to boost its own strategic capabilities and defense resources, its efforts must be complementary to and coordinated with NATO's priorities. Any new European defense projects must allow for fair and transparent competition and ensure that U.S. companies have the chance to bid on new contracts.

Conclusion

The Chamber recognizes that trade disputes across the Atlantic are occurring against the difficult backdrop of several other non-commercial disputes between the U.S. and the EU, notably over sanctions on Iran, Russia, Cuba, and divergent approaches to the national security concerns related to Huawei and 5G communications networks. These challenges all have significant spillover effects on our economic relationship as well. We encourage the Subcommittee to continue engaging actively with the Administration as well as with European policymakers to address these issues in a collaborative fashion. Both the United States and Europe are more effective when we work together to address our common challenges.

The U.S. business community is firmly committed to a strong transatlantic relationship—which has brought considerable benefits to workers, consumers, and businesses of all sizes on both sides of the Atlantic. In an increasingly complex and competitive global economy, there can be no effective resolution of our shared economic challenges without robust engagement between the United States and Europe.

The Chamber and its members look forward to working closely with Congress to achieve these goals. Thank you.

Attachments to Testimony

I would like to submit the following reports to accompany my statement:

- 1) *The Transatlantic Economy 2019*
<https://www.uschamber.com/report/the-transatlantic-economy-2019>
- 2) *U.S. Chamber Negotiating Objectives for a U.S.-EU Trade Agreement*
<https://www.uschamber.com/comment/comments-negotiating-objectives-us-eu-trade-agreement>
- 3) *Driving the Strong Economic Relationship Between the U.S. and Europe*
<https://www.uschamber.com/series/above-the-fold/driving-the-strong-economic-relationship-between-the-us-and-europe>
- 4) *Transatlantic Business Works – Policy Priorities and Recommendations*
<https://www.uschamber.com/issue-brief/transatlantic-business-works-policy-priorities-and-recommendations>