

EUTP Lecture 6

EU – USA Trade Relations





1. Trade relations EU - USA

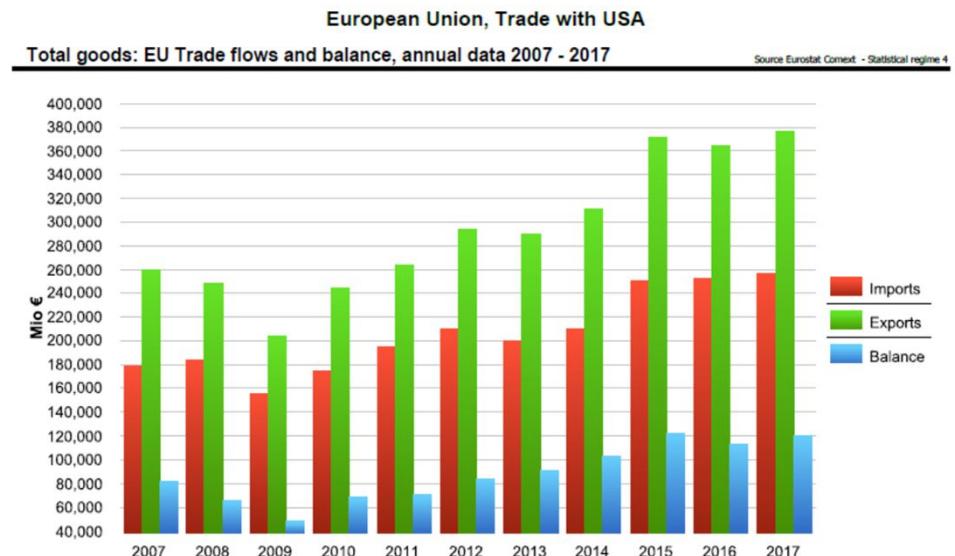
Trade in commodities

Key Figures

Indicator	Unit	Period	Imports	Exports	Total trade	Balance
Last year	Mio euros	2017	256,176	375,845	632,021	119,669
Rank as EU partner		2017	2	1	1	
Share in EU trade	%	2017	13.8	20.0	16.9	
Annual growth rate	%	2016 - 2017	2.3	3.3		
Annual average growth rate	%	2013 - 2017	6.4	6.7		

The positive trade balance with the US is important for the EU. It varies annually between 60 and 120 billion euros.

It partly offsets the negative effect of the EU's chronic trade deficit on imports of finished industrial goods from China, fuel from Russia, Norway, the OPEC countries, as well as agricultural and textiles mainly from Latin America and Asia.



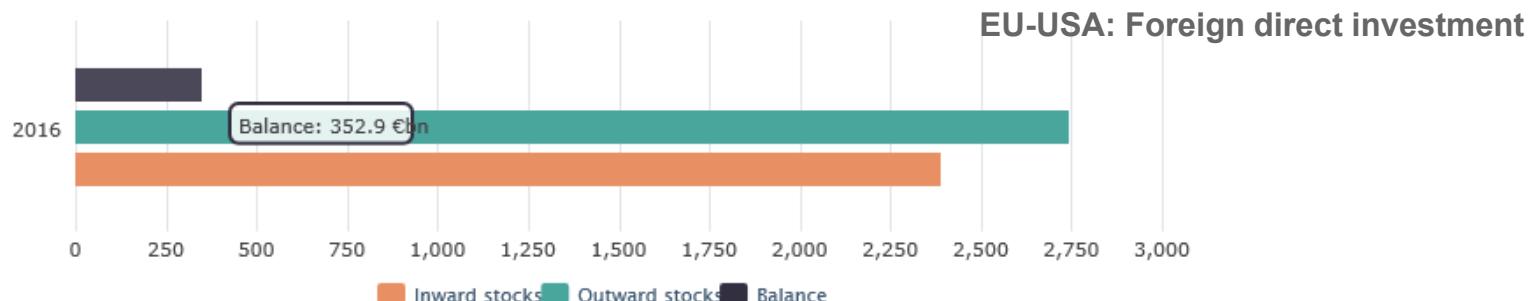
Commodity structure of the EU exports from the USA and the EU imports from the USA is an important evidence for the strong intra-industry specialization between the European and American companies. The bulk of the turnover is concentrated in two industries - machine building and chemical industry.

Top 5 - SITC sections

Product	Value Mio €	% Total	Product	Value Mio €	% Total
7 Machinery and transport equipment	111,555	43.6	7 Machinery and transport equipment	166,804	44.4
5 Chemicals and related prod, n.e.s.	56,592	22.1	5 Chemicals and related prod, n.e.s.	84,373	22.5
8 Miscellaneous manufactured articles	29,907	11.7	8 Miscellaneous manufactured articles	48,162	12.8
6 Manufactured goods classified chiefly by material	16,131	6.3	6 Manufactured goods classified chiefly by material	33,609	8.9
3 Mineral fuels, lubricants and related materials	15,134	5.9	3 Mineral fuels, lubricants and related materials	11,272	3.0

Role of FDI

This state of trade is the result of the huge mutual penetration of capital flows.



- Total US investment in the EU is three times higher than in all of Asia.
- EU investment in the US is around eight times the amount of EU investment in India and China together.

EU-USA: Foreign direct investment

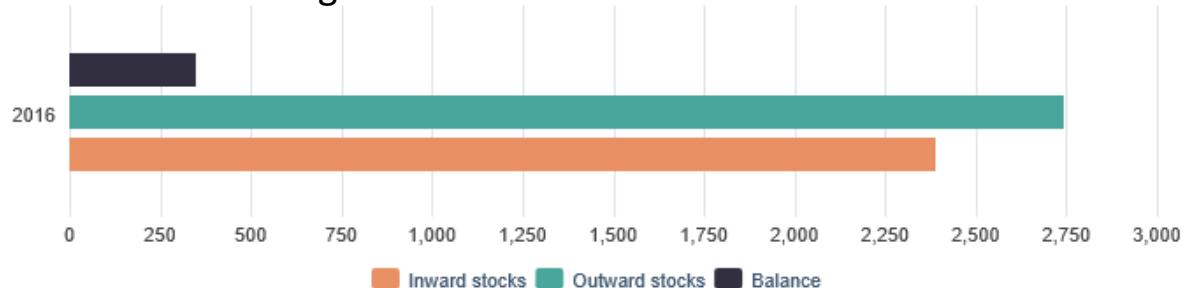
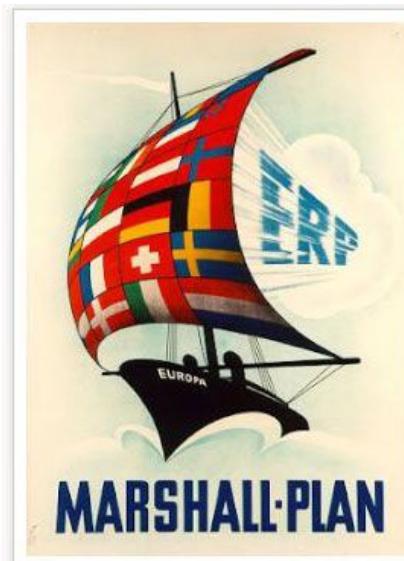
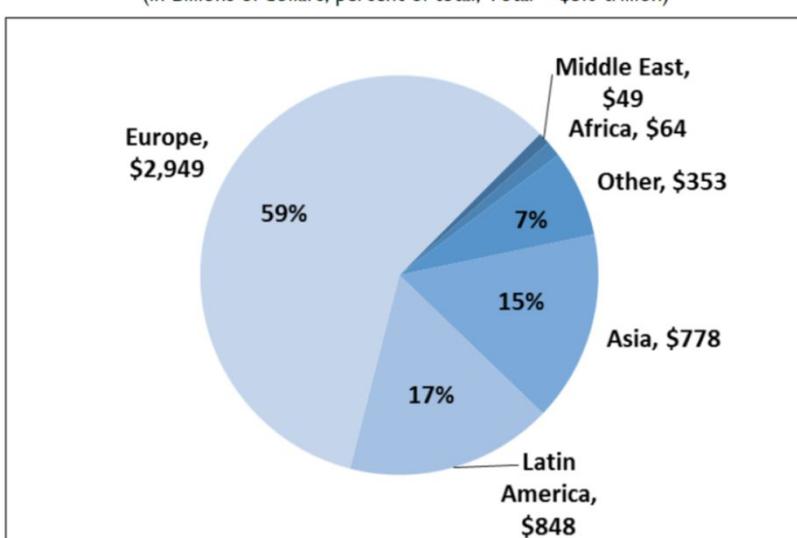


Figure 5. U.S. Direct Investment Abroad by Major Area, 2015
(in Billions of dollars, percent of total; Total = \$5.0 trillion)



About 71% of the accumulated U.S. foreign direct investment is concentrated in high-income developed countries that are members of the OECD.

Investments in Europe alone account for over half of all U.S. direct investment abroad, or \$2.9 trillion. Europe has been a prime target of U.S. investment since U.S. firms first invested abroad in the 1860s.

American firms began investing heavily in Europe following World War II and the Marshall Plan as European countries rebuilt their economies using American capital and later when they formed an intra European economic union.

The United States held 41.4 % of the inward investment in the EU from the rest of the world.

Most of the US stock of FDI held in the EU concerned investments in **financial services**, followed by **manufacturing** — in particular, **food, beverages and tobacco, petroleum, chemicals, pharmaceuticals, rubber and plastics**.

Offshore financial centres (25.8 %) and Switzerland (10.8 %) were the second and third largest holders of inward FDI stock in the EU; the majority of the inward stock held by offshore financial centres was located in Bermuda, Jersey, the Cayman Islands and Gibraltar.

Financial and insurance activities accounted for almost three quarters of the inward FDI positions held in the EU.

The Netherlands and Luxembourg together held approximately half of all the EU's FDI stocks at the end of 2015

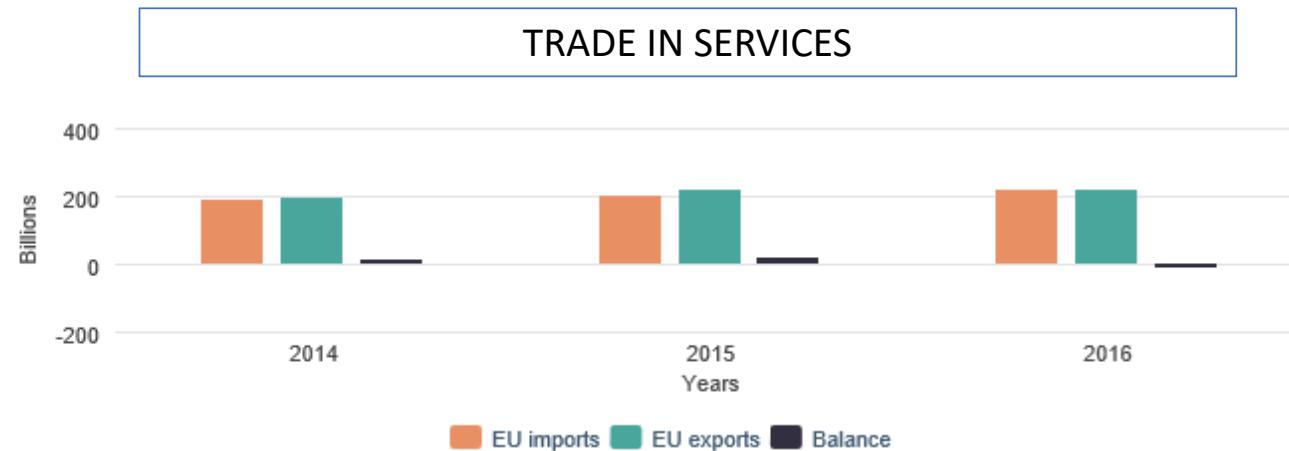


"Hedge fund" originated from the paired long and short positions that the first of these funds used to hedge market risk.

Hedge funds are available only to certain sophisticated or accredited investors and cannot be offered or sold to the general public. As such, they generally avoid direct regulatory oversight, bypass licensing requirements applicable to investment companies.

Hedge funds have grown to be a substantial fraction of asset management in the world, with assets around \$3 trillion.

Many hedge funds are operating as offshore companies.



The most exported service from the EU to the USA is "**Other business services**" (**€69 bn or 31% of the total EU exports of services to the USA**). This includes "**Technical, trade-related and other business services**" (12%), "**Professional and management consulting services**" (11%) "**Research and development services**" (8%)

Other important kinds of services exported from the EU to the USA:

"Transport" (14%), **"Financial services"** (13%), **"Telecommunications, computer, and information services"** (13%).

The five largest advertising agencies in the world:

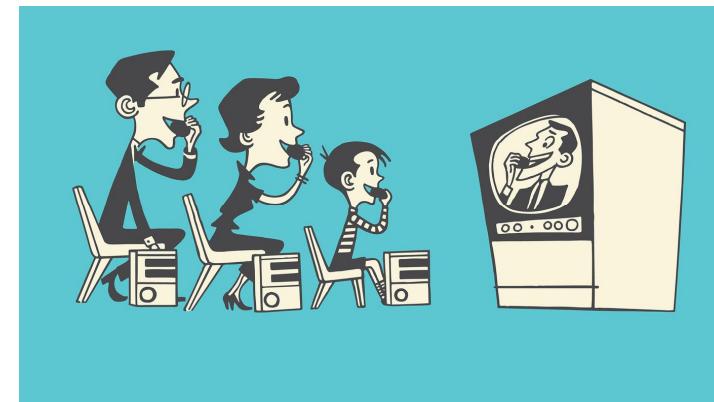
WPP Group, London \$19.0 billion

Omnicom Group, New York City \$15.3 billion

Publicis Groupe, Paris \$9.6 billion

Interpublic Group, New York City \$7.5 billion

Dentsu, Tokyo \$6.0 billion



The **Big Four** are the four largest professional services suppliers in the world, offering audit, assurance services, Taxation consulting services, management consulting, advisory, actuarial, corporate finance and legal services.

Firm	Revenues	Employees	Revenue per employee	Headquarters
Deloitte	\$38.8 bn	263,900	\$147,025	United Kingdom
PwC	\$37.7 bn	236,235	\$159,586	United Kingdom
EY	\$31.4 bn	247,570	\$126,833	United Kingdom
KPMG	\$26.4 bn	197,263	\$133,830	Netherlands



"Glad to see you maintaining an arm's length relationship with your client."

Deloitte Touche Tohmatsu Limited, PricewaterhouseCoopers, Ernst & Young

Trade barriers (Non-Tariff Measures - NTM)

Aerospace

Main divergences between the EU and US regulatory systems are found in the areas of public procurement (e.g. ITAR and the Buy American Act), government support for R&D, safety and functional standards, and differences in patent systems.

Automotives

NTMs are concentrated in the areas of safety and environmental standards, but also the Buy American Act, technological R&D support, and security measures. There are differences in air pollution and noise standards.

Chemicals, cosmetics & pharmaceuticals

Regulatory divergences between the EU and US occur in regulation, evaluation and authorization of chemicals, classification and labelling of chemical products, notification procedures of new substances, marketing and application of chemicals, customs regulations, and legislation pertaining to transboundary movement of hazardous chemicals and pesticides.

The EU ban on animal testing of cosmetic products and their ingredients is a regulatory divergence from the US, where such legislation is currently not proposed or envisaged. Areas of potential alignment include the level of testing to be performed, ingredients permitted for use in cosmetics and information to be provided to the consumer.

In the pharmaceutical sector – big differences in legislation and especially in patent legislation.

Electronics & Office Information & Communication Equipment

Major NTMs include differing product standards, US state-level safety and power supply certifications, third party testing requirements, 100 percent container scanning, differences in intellectual property systems, residence requirements for staff, the EU's Waste Electric and Electronic Equipment (WEEE) directive, differences in patent systems, different customs and border requirements and electromagnetic compatibility requirements.

Food & beverages

Divergences matter in terms of Sanitary and Phytosanitary (SPS) measures, US customs refusal to acknowledge EU origin. There are important divergences regarding the admissibility of genetically modified organisms (GMO) and related labeling requirements.

Some important EU – USA cases decided in favor of the EU:

➤ WT/DS353 - Measures Affecting Trade in Large Civil Aircraft (second complaint)

About prohibited subsidies provided to US producers of large civil aircraft (LCA) and in particular to Boeing.

➤ WT/DS248 - Definitive safeguard measures on imports of certain steel products

The EC considers that these US measures adopted on 5 March 2002 were in breach of the US obligations under the provisions of GATT 1994.

➤ WT/DS217 - Continued dumping and subsidy offset Act of 2000

The Act mandates the US customs authorities to distribute on an annual basis the proceeds of duties levied pursuant to a anti-subsidies and anti-dumping orders to the affected domestic producers which is a violation of competition rules.

➤ WT/DS160 - Section 110(5) of US Copyright Act

Section 110(5) of the US Copyright Act permits, under certain conditions, the playing of radio and television music in public places (bars, shops, restaurants, etc.) without the payment of a royalty fee.

➤ WT/DS136 - Anti-dumping Act of 1916

The 1916 Act imposes penal sanctions against the importation of goods when price is lower than the one in the country of production or in other foreign countries where the goods are exported, without investigation about dumping margin.

Some important EU – USA cases decided in favor of the US:

➤ WT/DS291 - Measures affecting the approval and marketing of biotech products (GMOs)

Complaints about the status of GMO approvals in the EC and national restrictions on the marketing of certain GMO varieties.

➤ WT/DS26 - Measures affecting meat and meat products (Hormones)

EC measures prohibiting the importation of meat and meat products that have been treated with growth hormones.

WT/DS174 - Protection of trademarks and geographical indications for agricultural products and foodstuffs (Budweiser)

The US complained that EC Regulation 2081/92 did not provide national treatment with respect to geographical indications and does not provide sufficient protection to pre-existing trademarks that are similar or identical to geographical indications (ex: Budweiser)

➤ WT/DS27 - Import regime for bananas

Complainants contended that the EU regime concerning imports of banana from the ACP countries violate WTO rules, especially the MFNT.

Transatlantic Trade and Investment Partnership – TTIP

A final agreement would have **24 chapters**, grouped together in 4 parts:

Part 1: Market Access

Trade in Goods

This chapter would remove gradually nearly all customs duties on EU-US trade in non-agricultural and agricultural commodities. Safeguard measures are allowed according to WTO rules.

Agriculture

The EU proposes that the Chapter on Agriculture includes three main elements: provisions on general disciplines related to agriculture – to keep regulatory competence of the EU institutions (CAP); provisions on trade in wine and spirit drinks - protection of wine names, recognition of winemaking practices, labelling, certification etc.; and provisions on non-tariff issues - many food and drink products from the EU are produced, processed or prepared in specific regions. They have 'names of origin', linked to where they are from. At the moment, the EU and the US protect names of origin differently: the EU as 'geographical indications', or GIS, the US as trademarks. The wish of the EU is to eliminate the difference in favor of the GIS.

Services

The focus is on the financial services. The EU objective is not to re-define the substance of the existing EU standards for financial regulation but to achieve a mutual recognition of standards.

Public Procurement

Companies currently face obstacles in winning public contracts across the Atlantic. Sometimes, they are not even allowed to bid for a contract. The TTIP talks provide an opportunity to remove remaining obstacles and to ensure that EU and US firms can bid for public tenders on equal terms.

Rules of Origin

The objective is to guarantee the US acceptance of the EU as a place of origin of goods (the Union and not the single Member States).

Transatlantic Trade and Investment Partnership – TTIP

Part 2: Regulatory Cooperation and TBT

To export to the US, EU firms must comply with US regulations. This can be costly, especially for smaller firms, if US and EU rules are very different. The idea is to make EU and US regulators working together more closely when they develop new regulations or review existing regulations which affect EU-US trade and investment in a major way. An other objective is to widen the use of international standards (ISO) and to extend the scope of the Agreement on mutual recognition of certificates of conformity.

Part 3: Rules

Included are new rules in order to promote sustainable development, SMEs internationalisation, competition, etc. A new way of protecting investments is proposed, so called Investment Court System (ICS) with judges publicly appointed by the EU and US. It will incorporate an Investment Tribunal with 15 judges and an Appeals Tribunal with six judges.

Government-to-government dispute settlement (GGDS) in TTIP is also proposed. The idea is to make the same arbitration as in the WTO but on a bilateral basis.

Part 4: Institutions

TTIP Joint Committee

The Committee shall meet at least once a year. The meeting shall take place in the Union or the United States alternately. The Joint Committee shall be co-chaired by the United States Trade Representative and the Member of the European Commission responsible for Trade, or their respective designees.

Transatlantic Regulators' Forum; Market Access Committee