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“The State of EU-US Relations and WTO Reform”

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Today, the real geopolitical challenge lies not in foreign and security policy but at the core of our economy. I see some understanding of this on both sides of the Atlantic. This implies that some policies are in need of rethinking – it is true for trade, investment, research, technology, competition.

The good news is that in economic areas the EU has already developed instruments to defend its interests. In particular, in trade policy the Union can look after its interests. We also understand that we must use our economic strength strategically and enhance our resilience.

When you ask where we currently stand in our relations with the US, one cannot forget that we have behind us four years of nearly entirely dysfunctional relations. It does not come as surprise to anybody that we welcomed the result of American election with a big sigh of relief. And, let me say that there are behind us four relatively good months for the transatlantic relationship.

Already in December, we put on the table our own proposals for EU-US relationship. Today, I can say that European institutions are actively involved with many counterparts on the US side.

We had President Joe Biden join a session of the European Council, several contacts with Secretary Blinken, John Kerry as the Presidential Envoy for Climate paying visits to Europe. The first EU-US summit is planned for June.

Still, I must admit there are things happening without consultations with us, European allies, such as the US withdrawal from Afghanistan with all its consequences for uncontrolled migration and terrorist actions or – last but not least – President Biden’s announcement on vaccines’ patent waiver.

Unfortunately, we see a strong Trump’s grip on the Republican Party and cannot exclude the possibility that in 2022 both the House of Representatives and Senate

will go to the Republicans. This is not only a challenge for the current administration; this is also a challenge for us, European partners.

On the American side, and from Day One, we could see steps demonstrating the will to be back on the international stage.

On Day One, the US re-joined the Paris agreement and appointed its lead negotiator for the Privacy Shield. From Day One, we could see movements reflecting as well our option toward de-escalating transatlantic trade tensions and actively seeking solutions to some heavy legacy trade files.

We found a quick agreement on the appointment of the Director-General of the WTO; we finalized in the WTO the framework negotiations on trade rate quotas related to the UK withdrawal from EU; early March we agreed to a four-month grace period on all retaliatory tariffs imposed in the Airbus Boeing case that has a history of nearly two decades and there is a chance to solve this long running dispute.

However, a number of challenging issues remain on the table and will not be easy to solve. Some of them are closely interlinked with domestic agenda of President Biden.

During Donald Trump's four years, tariffs were thrown at us rather frequently.

Even though custom duties are rather low on industrial goods, on both sides close to 4%, there are 244 US industrial goods and 151 European industrial goods that have tariff rates above 15%. That means that our companies have less favorable conditions to access the US market than many competitors who have preferential FTAs with the US. The same is true the other way around. This is particularly painful as a majority of our exporters is SMEs. There are studies demonstrating that a full tariff elimination would increase our trade flows by 8-9%.

So, reduction of tariffs and facilitation through conformity assessment agreements should continue to be on our joint agenda.

A prime example of an issue that needs a solution and definitely belongs to those with heavy domestic implications is the section 232 investigation on steel and aluminum, accompanied by the anti-dumping accusations on aluminum sheets.

While the US clearly identified the need to curb steel and aluminum overcapacity, it did so unilaterally, disregarded established international dispute settlement mechanisms, and called the EU a "threat to its national security". This is not the case anymore, and the US understand that the EU is not behind the global overcapacity in the steel sector. China overcapacity is a real issue here.

The Biden administration is currently revising its trade policies, designing its positions on many pending issues. U.S. Trade Representative Katherine Tai is building its team. I trust that both sides will see the need to put an end to the retaliatory tariffs.

Lifting the tariffs imposed on the EU would be a strong signal that the US is ready to engage in full and mutual de-escalation and break away from the legacy files.

A particularly important issue is the Airbus-Boeing case of illegal state aid. The EU and the US are engaged in intense talks to find a common solution to the dispute and create future disciplines for the sector. Ambassador Katherine Tai recently quoted the suspension of tariffs in this case as one of her early successes. There is political will on both sides and I hope they deliver before the end of the grace period.

The CEO of Airbus said a couple of days ago at the Atlantic Council EU-US Future Forum that punitive tariffs between the EU and the US do not make sense and are in a geopolitical perspective a lose-lose situation to both Airbus and Boeing and to other sectors that have nothing to do with building aircrafts. I could not agree more.

There is clearly a political momentum – let us capitalize on it. I hope that the June summit will be a great opportunity to announce the solution to Airbus Boeing case.

But, of course there are more important cases that are regularly in the spotlight. It is our common interest to secure a successor to the Privacy Shield or solve the issue of digital taxation. For the latter, hopefully through a global agreement within the OECD framework.

These are few concrete steps that the EU and the US can take together. There is no option here other than continuing our work on the de-escalation of tensions to strengthen the transatlantic partnership.

But, solving harmful legacy issues is one economic and political necessity. Tapping opportunities existing but dormant in our economic realities is another way toward strengthening the EU-US partnership. One such area of unused potential is regulatory cooperation. We are living a momentum now when we can achieve additional value added from this type of cooperation. Moving toward alignment of regulatory framework would open a huge unexploited potential.

We could benefit from doing more things in a transatlantic way rather than in our own way on both sides of the Atlantic.

Alignment of regulatory space has been traditionally difficult to deliver due to systemic differences in the approach with private light touch on the US side and

rather heavy, single market related, top down European approach. In my view, in the regulatory sphere, the traditional Brussels effect days are gone, we have to move on on how we regulate.

American and European companies have much to gain if we were to align and cut red tape. Although tariffs between the EU and the US are already low on average, the cost of dealing with unnecessary bureaucracy can add a tariff-equivalent of 10 to 20 percent to the price of goods.

Regulatory cooperation can continue through the channel of conformity assessment. For instance, and as a result of the implementation of the 2017 Mutual Recognition Agreement on pharmaceutical products, both industry and public authorities were able to free resources and made it faster and less costly to bring medicine to the market. Much has already been achieved during the TTIP negotiations. Now would be the time to resume and conclude the conformity assessment negotiation.

While conformity assessment is primarily looking at harmonizing regulations on existing standards, the Trade and Technology Council, as proposed by the EU side, would look at future technologies related common EU-US regulatory space. Launching this new channel for regulatory cooperation could have enormous value added. The Council would help avoiding the risk of separate regulatory spaces and incompatibility while generating geopolitical benefits in areas like digital economy.

Combining trade and technology would have to cover many institutions in the US. On the EU side as well it will be complex, involving also member states. Benefits from common standards will be particularly high in the areas of new regulatory requirements for technology, investment, and security.

The focus of the current American President on China is not going to change. It seems that the three huge packages of public funding proposed by the current administration, one of which has been already approved by the Congress, the new administration will invest in innovation, research, skills, everything that would allow America move faster than China. But, this is an existential interest not only for US but also for EU.

There is a lot which we share with US regarding the approach to China related challenges. A big part of the solution can come through our cooperation within WTO.

I think that a huge and long-term area for close cooperation, of largely untapped potential so far, where the EU can be a source of expertise, good practice and

investment and actually support US efforts through cooperation, is the climate related transformation. The US does not have an emission trading system or any climate policy related framework. Therefore, the European experience in this area, including the just transition challenge, could be an area for cooperation and investment. It is a great opportunity for European companies, and would be appreciated by those states in the US where transition to low emission economy is a long term and costly challenge.

Here regulatory alignment would open many investment opportunities. It seems justified that these issues should be undertaken rather promptly.

In their bilateral relations, the EU and the US should seize the momentum to fireproof the transatlantic relationship.

As Jean Monnet said “nothing is possible without men, but nothing lasts without institutions”. EU-US common challenges are increasingly non-military in nature, including climate change, digital economy, food health and safety. We need to go beyond NATO’s cooperation framework.

These challenges also require Congressional and parliamentary rule making and budgetary support. For a while, and already in various forms, the idea of creating a Transatlantic Assembly based on the Transatlantic Legislative Dialogue is gaining momentum. The Assembly would be a consultative forum where members of Congress and the European Parliament would share legislative initiatives, political constraints, and possible cooperative action based on a focused agenda of priorities. This idea would be entirely in the hands of MEPs and Congress representatives. Today, Congress does not mandate the dialogue between Congress and the European Parliament. Additionally, establishing a Congressional office in Brussels could provide a supportive mechanism contributing to effectiveness of the legislative and political cooperation.

Let us use the momentum to continue deepening our bilateral institutional dialogue.

But, let us not forget that transatlantic agenda can be an excellent vehicle for our global responsibilities. We are living times where international organizations must deliver and need to be reformed. They must ensure a functioning rules-based international system.

There are also new areas where we need rules. Climate, health and the digital transformation are good examples here.

The world needs leaders but it is not the time for lone leaders.

Four months into Joe Biden's Presidency, we can say that US is back on multilateral track. There is a chance for a new push in WTO. There is also a common understanding that if we stand together on globally important issues then our global agency will be much stronger.

The reform of the WTO is at the center of EU trade policy. But, of course, the reform of WTO is a collective effort. The new Director-General will be a facilitator. It is also true that many WTO Member States want reform.

On WTO reform, there are many issues where the US and EU we are not far from each other. But, it is not yet clear what will be the position of US on specific issues.

The US is still reviewing its trade policies and their position on WTO reforms is not yet clear. Nevertheless, it is a moment to reinvigorate the WTO.

Dr. Ngozi Okonjo-Iweala says that she had constructive feedback from the Biden administration regarding WTO efforts. They are ready to sit at the table and engage. In my view, however, regarding the dispute settlement, we cannot expect to restore the system any time soon.

First, there is a need to have other reforms agreed on rule making, on subsidies, and basically on all China-related issues before the US would agree to move forward on reforming the dispute settlement. Clearly new WTO rules on all Chinese weaknesses are of interest to the US. Congress will support this approach.

We can assume that two to three years of associated reforms will be needed to see the change in dispute settlement solution.

In the meantime, we have twenty five states, including China in the multi-party interim appeal arrangement (MPIA) designed by the EU.

President Biden also made it very clear that the US does not plan to move toward new major trade agreements, meaning not only FTAs but also multilateral ones. However, we can see that they might be interested to discuss what trade can do to facilitate global commitments climate. They see it as a priority in the integration of plurilateral agreements into the system. Launching the climate and trade initiative would probably imply its plurilateral character.

Any success in reinvigorating the WTO will most likely depend on the level of realism and pragmatism of its negotiators. Many states have their own agenda for the reform. My understanding is that while the US would want to play a leading role in the reform to avoid creating a political vacuum.

Looming challenges are indeed very significant. Differences in opinions will be most likely deep. We will need a lot of effort, pragmatism and patience. The challenge is not only what to do, but equally important is how to do it. For the US, seeing some quick multilateral outcomes will be important.

The new Director-General knows that if she pushes now to finalize the fisheries negotiation, there will be space for further reforms. So finalizing fisheries negotiations, which has been ongoing for twenty years, is now a test of the WTO capacity to move forward.

The Director-General wants to see a ministerial agreement on trade and health, a solution that would allow automaticity of access to vaccine and protect innovation and research.

The Chinese issue is not going to be easy to cope with. Of course, China-related issues are important for many states. Let us not forget that China is the world second largest exporter and has been rather active in WTO. But, the solutions to all Chinese issues cannot be solved by directly targeting China, as they would refuse to negotiate. The way negotiations will be framed is going to be fundamental. The US would be interested in engaging a broader constituency in negotiating new rules covering Chinese-related issues. For this, a critical mass of countries will need to engage.

It seems also important to see that the twelfth Ministerial Conference (MC12) is a success. To keep US involved and committed to the WTO, we cannot afford another Buenos Aires.

If you ask me what the most are pressing actions related to the EU's international trade policy, the short answer would be that the list should be long. Nevertheless, I would like to mention two actions as particularly pressing.

First, we should spare no efforts to avoid that we see emergence of two worlds, one COVID-19-vaccinated, and another one not vaccinated. We must get the vaccines to the rest of the world now. As a politician, I would add before China and Russia.

Vaccine producing countries must make it available to the less advanced world, at the same time keeping investing in increasing our production capacities.

The EU and the US should work together on both scaling up the production and vaccinating the world.

We all know that the TRIPS waiver is an extremely complicated issue. Any negotiated results would take six to eight months. We need a rapid solution for India and other countries suffering from devastating waves and we need to counter it in the short term. We most likely have to look at the possibility of using the existing flexibilities within TRIPS agreement, notably compulsory licensing. And, of course prompt action on the export side is key.

Without any doubt, all producing countries should ramp up production and exports without any bans.

And, a second action is the one that would keep the EU and US partnership strong and relevant globally. We must keep working on promptly removing remaining retaliatory tariffs between the EU and US and move in parallel toward an alignment of regulatory spaces and systems, which would allow us both to move faster than China in the geopolitical competition.