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“Pragmatic insights into transatlantic relations and the TTC”

AmEx Forum on “The shifting sands of transatlantic relations”

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It is indeed a good moment for a pragmatic reflection on the transatlantic relations. The outcome of the midterms is known and the razor thin Republicans majority may lead to more instability and unpredictability, including empowering the more radical fringes of the caucus. We might see more executive orders of the President. Still, when it comes to the transatlantic relationship we are after two years of hard work to consolidate the common agenda. After the experience of four years of practically dysfunctional relations we used the last two years not only to cope with substantial trade irritants but we also created a space for collaborating on profound transformations in line with shared interest regarding competitiveness and well-being. This common progressive agenda embraces digital and green transitions, but also the nexus between trade, technology and security.

We also agreed on transforming the way we cooperate. And there is joint commitment to go beyond our bilateral relations toward shared global responsibility and accountability.

Trade and Technology Council established in June 2021 is gradually growing in its tasks and solutions, allowing to deepen transatlantic trade and technology cooperation based on shared values and creating an environment where businesses can benefit and regulators can align approaches to key global issues. The war has cemented the transatlantic agenda, adding to it the security dimension and perspective of a world divided between democracies and authoritarian regimes.

The bad news is that we are facing now strong elements of protectionist agenda on the US side. We see political efforts to bringing manufacturing back to US, economic policy focus on creating an environment for jobs, deploying policy measures not aligned with the WTO rules, sanctions with extraterritorial component hampering the EU companies, Buy American - not only its spirit but also provisions in main legislative acts in US: Infrastructure, Jobs Bill, Inflation Reduction Act (IRA).

Subsidies are damaging globally the level playing field. European companies are seriously affected.

In parallel, unprecedented inflation, more demand side in the US and supply side in the EU, leads to disadvantageous spill overs from the FED policy contributing to the decreasing value of the euro and stimulating inflation in the EU.

The risk of expected unilateral policy measures is augmented by the fact that the new Congress might be less friendly toward multilateralism.

In October, the US administration has also tightened its export control regime on semiconductors against China, which will also affect EU products. South Korean companies with semiconductor operations in China got temporary waivers. It would be probably rational to use in the Chinese context similar sanctions solutions we jointly have toward Russia. Unfortunately extraterritorial sanctions are again on the table.

They could hurt European companies in many ways. One of those is restricting the use of US components in machinery, restraining the sale of semiconductors to China or deterring the employment of American citizens.

Regarding the IRA both sides established a task force to find a negotiated solution. I would expect using the TTC for such conversation, the good news is that the outcome from the task force will be presented during the upcoming TTC principles meeting on the 5th of December. We expect clarifications and exceptions.

There seems to be on both sides the will to find a negotiated solution to the current issues. Still, a legal action in WTO cannot be excluded, as apparently planned by the South Korea. There is, however, a precedence of exempting Mexico and Canada from the IRA distortion of level playing field, it is not at all clear whether a similar approach could be used toward European businesses.

IRA rules enter into effect 1 January 2023, but negative consequences for companies in the EU have already been reported.

Behind this propensity to apply protectionist measures there is the domestic political agenda. Nevertheless it is worth mentioning that this type of policy agenda tends to increase costs and eventually has a negative impact on long term competitiveness. In the short run it is a policy attracting investors. European firms can start moving their investment to the US.

USTR tells us - we hear you. Indeed this is not yet trade war. But the policy shift hit us in a period very challenging for EU. Skyrocketing energy prices. War at our doorstep. Clearly common enemies and rivals. Risk of power based trade and emergence of Cold War style trade blocks.

When talking about the protectionist tendencies in the US, also the EU open strategic autonomy comes to our mind.

Pandemic reminded us that both EU and US had developed vulnerability of their economies to external shocks. In the past we had generally associated vulnerability with small, open economies. This time we could see in the strongest economies how vulnerability created risk, losses, generated economic, social and political costs. The EU, to start building its resilience created a conceptual framework of open strategic autonomy. It means remaining an open global actor, with the right to regulate, long term thinking and with clear strategic path forward, with new defensive policy measures in the trade area, with new ways and means of financing huge investment needs, not aiming at reducing the potential of US economy but aiming at making the European pie bigger and more attractive. Yes, this way to move forward requires policy induced abilities of the economy.

The economy of the EU is the most open among the big economies and it will continue to be. EU is also the strongest protector of level playing field principle and it will continue to be.

So much, however, depends on whether trade will become globally one of those flows which can easily be weaponized by authoritarian leaders. That is why the EU has been sparing no effort to maintain the world relying on the WTO when it comes to broadly understood world of trade. That is why we worry seeing domestic efforts to create decoupled economic environment. That is also why we believe that together with the US we should help our partners in poor economies to meet our requirements for sustainable development.

Most commentators on globalization see US and China as dominant powers of the world of tomorrow. The debate on “whom the future will favor” will stay with us for a while. In any case, in the meantime, it would be, I believe, rational to avoid a long term existential conflict and go for a kind of détente. How to do it when at the same time there is an urgent need for democracies to challenge the state capitalist model of China. I believe that the TTC platform that the EU and US established allows us to

use it for formulating clearly common interest against China and common path for action. We can capitalize on it and develop rules for emerging technologies, ensure a human centric AI, address China's trade distortions. In short, the TTC is a platform to build a united front so that we don't allow China to use divide and rule tactics we have just seen during the G20. We should not forget that the WTO has a mandate to reform by the next ministerial meeting. This is an opportunity to vastly improve the system and correct rules that have benefitted China.

I am also convinced that if democracies could act together in a broader company of like minded partners, we would find an effective way to shape China's place and role in the global world. This could happen through European open strategic autonomy as a model of thinking and multilateral fora as global institutional framework.