

### EUROPEAN UNION DELEGATION TO THE UNITED STATES OF AMERICA

The Head of Delegation

Washington, 10 May 2017 del-usa.002.dir(2017)2720685 DOS/DL

The Honorable Wilbur Ross Secretary of Commerce Department of Commerce 1401 Constitution Ave, NW, Room 5863 Washington, DC 20230

Ref: Omnibus Report on Significant Trade Deficits

Dear Mr. Secretary,

The European Union and its Member States hereby submit comments under Docket Number DOC 2017-0003, further to Executive Order 13786 of 31 March, on the Omnibus Report on Significant Trade Deficits.

By way of introduction, we welcome that the Federal Register Notice published on April 17 identifies the European Union as a single entity. EU Member States do not, and may not pursue independent trade policies. They share an internal market, and 19 countries have a single currency and independent monetary policy. As each EU country must be considered part of the EU trading bloc, this submission is made on behalf of the EU and all its Member States.

We acknowledge the importance the new US administration attaches to trade policy as a means of achieving economic growth, high wage jobs, and open markets. The European Union shares these objectives.

We would like to comment on the use of trade deficits as a self-standing metric to evaluate whether a country is benefiting from globalisation.

As a general matter, the roots of trade deficits originate not in trade but predominantly in macroeconomic policies. Trade balances reflect differences between income and spending, or savings and investment. A persistent trade deficit mainly results from a combination of insufficient domestic saving and/or surplus foreign savings which may also be impacted by structural features like demographics. Trade deficits have to be balanced by an inflow of capital and can therefore be problematic if their financing is unsustainable over time. It is worth noting that the US has continued to attract inflows of foreign capital thanks to its growth potential, deep and liquid capital markets, the role of the dollar as international reserve currency, technological prowess, and proven ability to innovate. Over the last decades, capital inflows have contributed to the US' growth performance, employment, and economic resilience, without putting at risk national security.

In remarking on this Executive Order, EU stakeholders have pointed to the limitations of examining a *bilateral* trade deficit or surplus of a third country/trading bloc with the US, when an overall trade account can be different. This is compounded in the EU where individual Member States may have a surplus or deficit with the US, but all share the same trade policy. Questions have also been posed regarding the pertinence of an analysis focused

exclusively on goods and not taking into account services or procurement. For example, the US economy is shifting towards greater specialisation in services, where it is very competitive and has a growing surplus. The 2016 US services surplus balances 40% of the EU's bilateral surplus in goods.

As the administration has noted, it is worth recalling that the openness of a country or trading bloc to international trade does not have an automatic effect in generating a trade deficit or surplus. For its part, the EU combines a surplus with the US with a generally very open market in goods, services, and procurement. The EU trade weighted import tariff is just 0.5% higher than the US one. In 2015, the EU was the second largest importer of goods and the largest importer of services. There is no correlation either in theory or practice between unemployment and a trade balance. We would note that, for reasons explained below, the EU currently runs a small trade surplus but suffers from high unemployment, while the US has a trade deficit and low unemployment.

It is important to place trade deficits in the longer context of business cycles. One of the main drivers of the increased EU-US imbalance in goods trade over the last years is that the US economy has rebounded relatively quickly and robustly from the "great recession" of 2009, while the EU is experiencing a more protracted period of necessary fiscal adjustment and subdued growth. This has weighed on domestic demand in Europe and reduced its growth in imports from the rest of the world. This process is now behind us, and as the EU economy moves back to a more sustainable and dynamic growth path, the conditions are in place for the European economy to make a more robust contribution to global demand.

The EU and the US have the most integrated economic relationship in the world, in which distinctions between trade, investment, employment and research are hard to isolate one from the other. The EU is by far the largest foreign investor in the US economy and we believe that this relationship has been mutually beneficial.

We do understand and share the US administration's desire to address trade-distorting practices and to lower trade barriers, and we are ready to work together to promote reciprocally open markets bilaterally and in the World Trade Organisation. This includes cooperating in order to address the root causes of non-market driven overcapacity. The EU looks forward to engaging US counterparts on a trade agenda that will help level the playing field between countries, strengthen international trade rules, and increase market access.

You will find in Annex replies to specific points raised in the Federal Register Notice.

Yours Sincerely,

David O'Sullivan Ambassador

Attachment: Additional remarks to questions in Federal Register Notice

Copy: Mr. Stephen Vaughn, Acting United States Trade Representative

Additional remarks to specific questions posed in the Federal Register Notice inviting comments

a) Assess the <u>major causes of the trade deficit</u> including, as applicable, differential tariffs, non-tariff barriers, injurious dumping, injurious government subsidization, intellectual property theft, forced technology transfer, denial of worker rights and labor standards, and any other form of discrimination against the commerce of the United States or other factors contributing to the deficit;

The European Union attaches great importance to the multilateral trading system and fully respects and complies with the rules of the World Trade Organisation, including those contained in the General Agreement on Tariffs and Trade, the Agreement on Technical Barriers to Trade, the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (Anti-dumping agreement), Agreement on the Agreement on Subsidies and Countervailing Measures, the Agreement on Trade-Related Aspects of Intellectual Property Rights Agreement.

This set of international obligations lays the foundations for a more open and undistorted global trading system that the EU seeks to uphold and promote through its trade agenda.

The EU does not only have generally low tariffs in place<sup>1</sup>, but it also pursues a broad range of policies aimed at ensuring that its market is open (through our single market regulations), with high standards of protection and strong enforcement of intellectual property rights, as well as a successful cooperation with the US aimed at promoting IPR both domestically and internationally, including at the WTO, the UN and in 3<sup>rd</sup> countries where the EU and U.S. face common challenges. Furthermore, the EU has a comprehensive framework to protect competition through regulations on mergers and anti-trust, and subsidies, which are among the strongest and the most transparent in the world.

The EU is a moderate user of trade defence instruments and the EU legislation contains a number of provisions which go beyond the WTO obligations (such as the "lesser duty rule" and the "EU interest test") and which are aimed at ensuring a balanced application of the EU's anti-dumping and anti-subsidy rules on all interested parties. In short, the EU's trade defence instruments do not present any obstacle to US exports. The European Union also notes that its exports to the US can be subject to AD and CVD investigations and measures. In the vast majority of these cases, the import share into the US represented by EU imports is small compared to other exporting countries/entities to the US.

Last, the European Union attaches significant importance to promoting international labour standards and decent work for all, including in international trade. All EU Member States have ratified the eight Fundamental Conventions of the International Labour Organization (ILO).

b) assess whether the trading partner is, directly or indirectly, imposing unequal burdens on, or unfairly discriminating in fact against, the commerce of the United States by law, regulation, or practice and thereby placing the commerce of the United States at an unfair disadvantage;

The European Union does not impose unequal burdens on, or unfairly discriminate against the commerce of the United States, by law, regulation or practice which thereby places the commerce of the United States at an unfair disadvantage. Our levels of tariff protection are broadly similar. In addition, OECD studies indicate that the EU services economy is

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According to the latest data from the World Trade Organisation the trade weighted import tariff applied by the European Union is 2.7%. That applied by the United States is 2.2%.

somewhat more open than that of the US. In 2016, the US surplus in services trade with the EU has reached a total of almost €50 billion (up from around €11 billion 10 years earlier). This represented 40% of the EU bilateral surplus in goods. Further, the European Union does not have "Buy European" laws or regulations in government procurement.

# c) assess the effects of the trade relationship on the production capacity and strength of the <u>manufacturing and defense industrial bases</u> of the United States;

In a world of global value chains the relationship between trade and competitiveness becomes ever more intricate. Exports matter to sustain a competitive manufacturing base in the US because they allow firms to expand the scale of their activities. But imports from economies like the EU are equally important as they allow US firms to tap into a greater variety of inputs, often embodying the very latest technologies, which in turn contribute to the US' overall competitiveness and export performance.

Moreover around half of the EU-US trade in goods is generated within firms as they exchange inputs between headquarters and affiliates. Keeping such trade unhampered is important for the US not least because of the employment it supports. In 2014 EU-headquartered firms employed 3.2 million people in the US, of which 1.2 million work in manufacturing.

The defence industrial base in Europe is considered complementary to and supportive of that in the US.

## d) assess the effects of the trade relationship on <a href="mailto:employment and wage growth">employment and wage growth</a> in the United States; and

### **Employment**

According to the Department of Commerce, U.S. exports of goods and services to the EU supported 2.64 million jobs in the US in 2015. Moreover, US-EU commercial ties are also underpinned by the deepest two-way investment relationship in the world. The EU and the US are each other's first destination and source of FDI (in terms of 2015 stocks).

Furthermore as value chains become ever more complex so does the relationship between trade and jobs. For instance when the EU exports to the world it supports jobs not only in the EU but also elsewhere, including in the US. In 2011, EU exports to the world supported around 740,000 jobs in the US, as EU firms bought US components and intermediate services needed for such exports.

#### Wages

U.S. main goods exports to the EU in 2016 were: chemicals, transportation equipment and computer and electronic products, where mean wages in 2016 were 27%, 16%, 9% and 58% higher than the national average.

Reflecting the value-added nature of the transatlantic relationship, according to preliminary 2014 data from the U.S. Bureau of Economic Analysis, the compensation per employee paid by U.S. affiliates of European Union companies was above the national average at around \$78,000.

### e) identify <u>imports and trade practices</u> that may be <u>impairing the national security</u> of the United States.

We believe that the contribution of EU companies investing in and trading with the US for many decades has enhanced US national security, sharing of technology, and modernisation of the US' manufacturing base. It is worth noting that the EU is a longstanding national security partner of the US. Twenty two EU Member States are also members of the North Atlantic Treaty Organization.