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Stronger U.S. – EU Trade Creates Everyday Benefits

By Jeff Okun-Kozlowicki and Gabe Horwitz

The economic relationship between the United States and the European Union (EU) is so strong and so deeply integrated into multinational supply chains that policymakers often forget about it. Even with recent economic turbulence, the EU is America's largest trading partner. The EU remains one of the most important markets for the United States in terms of exports, two-way investment, and domestic job creation. But our marriage could be even stronger—especially at a time when both sides are seeking to recover from several years of lean economic growth. Breaking down trade barriers and spurring cooperation in key sectors would have significant benefits for American manufacturers and consumers in terms of the movies you watch, the car you drive, and the products you use.

The EU market is huge: EU countries have 155 million more people than the eleven nations negotiating with the U.S. on the Trans-Pacific Partnership (TPP), and the Europeans earn a per capita income that is more than double that of the average TPP resident.[1] The trade linkages for U.S. multi-national companies are similarly huge and underscore our interwoven relationship; U.S. exports to American subsidiaries or branches in Europe represented 31.3% of U.S. exports to the EU in 2011.[2] Moreover, Europe-based affiliates of U.S. companies made $2.6 trillion of sales in Europe in 2011, which was nearly half of all affiliate sales worldwide.[3] Back in the United States, around 3.5 million Americans worked for U.S.-based affiliates of European companies in 2011.[4]

Estimated benefits of TTIP agreement

- *Around 275,000 to 1 million new American jobs*[5]
- *Additional U.S. real GDP growth of 0.8% to 13.4%*[6]

While the regulatory and economic regimes of the United States and the EU have the same core values, policy differences and tariffs in a number of

areas create barriers to trade—affecting everything from what you drive to what you eat. Some policy differences stem from different political and cultural values, and full cooperation on these specific issues may ultimately be impractical or impossible. On other issues, however, the U.S. and EU can achieve common policies that will reap benefits for U.S. industries, workers, and consumers—and will create potential long-term benefits by raising trade standards around the world. In this memo, we outline four industries for which a successful Transatlantic Trade and Investment Partnership (TTIP) negotiation could bring benefits to the United States.

THE CAR YOU DRIVE

Trade Barrier: Duplicative Standards and Tariffs

The U.S. and EU have different safety requirements for basic automobile components like lights, locks, brakes, steering, seatbelts, and windows. The requirements can be considered functionally equivalent in that they all achieve high levels of safety;[7] nevertheless, they are not recognized by regulators on the other side. Regulatory differences amount to significant barriers to trade because they lead to duplicative testing, redesign of components, and other costly actions that prevent automakers from achieving scale. For example, the U.S. and EU require different models of crash test dummies for certain tests even though the dummies are practically the same size and accomplish the same goal.[8] Thus, carmakers need to do these tests twice, helping the crash test dummy industry but no one else.

Larger regulatory differences present major barriers. One American automaker had to modify a U.S. model for export to the EU for a cost of $42 million along with re-testing of 33 different components to meet European-specific restrictions on exterior edge projection.[9] Altogether, EU regulatory differences result in a 25.5% increase in the cost of U.S. vehicle exports to the EU.[10] This has the same effect of a 25.5% tax: higher prices and lower demand for American vehicles in Europe. When the EU's existing 10% tariffs[11] on autos are added, American vehicles get even less competitive. Mutual recognition of regulatory systems would help level the playing field, yielding increased exports and more American jobs.

The United States exported over 238,000 vehicles (valued at $7.9 billion) and nearly $5 billion of auto parts to the EU in 2012.[12] Eliminating tariffs and some regulatory barriers could increase U.S. exports by 207% to 347% over the next 14 years,[13] which could create tens of thousands of new American jobs.

Regulatory cooperation in the auto industry should not seem far-fetched when the United States and the EU have already achieved regulatory cooperation in a highly-regulated, safety-conscious industry: aircraft. The U.S. and EU civil aviation safety agreement, which entered into force in 2011, mandates reciprocal acceptance of each other's approvals of aircraft safety and airworthiness. If the U.S. Federal Aviation Administration says a new Boeing model is safe, the European Aviation Safety Administration no longer needs to needs to go through its own sets of tests. Parts manufactured (and certified) on one side of the Atlantic generally no longer need to undergo duplicative assessments on the other. The agreement is based on "mutual trust" of different regulatory systems[14] and does not involve weakening safety standards in any way. TTIP offers the opportunity to do the same for autos.

THE TOYS YOU PLAY WITH

Trade Barrier: Redundant Certifications

Toy manufacturing is another industry for which safety is paramount. The toys that American children play with need to be free of hazardous materials, and toys sold in the United States are treated accordingly. In 2008, the United States passed the 2008 Consumer Product Safety Improvement Act to more effectively regulate the use of certain chemicals in children's toys. The European Union also has high—but differently formulated—standards for toy safety, which were most recently updated in 2009. Toys achieve high levels of safety on both sides of the Atlantic but the regulatory differences raise the cost of exporting.

80% of U.S. and EU toymakers are SMEs (small and medium enterprises).[15]

According to the Handmade Toy Alliance, performing testing to meet U.S. toy safety standards costs $750 to $2,500 per product.[16] Additional testing and certification to meet EU standards costs another $1,000 to $3,000.[17] These fees can be difficult for small and medium enterprises (SMEs)—which constitute around 80% of toymakers[18]—to bear. For example, if a small toy manufacturer in America wanted to export 500 dolls that have already been deemed safe in the United States, it would need to add $2 to $6 to the price of each doll sold in Europe to cover the costs of EU safety certification. Redundant compliance efforts on both sides of the Atlantic constitute a trade barrier that is estimated to cost toymakers $3 billion per year.[19]

TTIP negotiations offer the opportunity to eliminate this barrier. Instead of requiring additional testing, European regulators could recognize the results of U.S. safety assessments that achieve the same goal as an analogous EU standard.

Presuming conformity or mutual recognition could substantially reduce costs for SME toymakers without compromising safety in either jurisdiction. American toymakers would be able to compete for more of the EU's huge toy market: $23.3 billion of sales in 2010,[20] of which one-third were imported.[21]

THE SHOWS YOU WATCH

Trade Barrier: Foreign Content Quotas

European countries have placed trade barriers on American films and TV programs since Charlie Chaplin in the 1920s.[22] The EU created a formal policy in 1989 that required at least 50% of European TV broadcasts consist of European content. This policy was modified to cover on-demand services in 2007.[23] All EU Member States are required to incorporate these rules into their domestic laws. France has instituted even stronger trade barriers to American film and television content by limiting non-European content on television to 40% of broadcast time.[24] Generally, movie theaters in France must show French films for a minimum of 140 days out of the year, more than 38% of screen time.[25]

The barriers created by local content requirements are subtle. American television shows and films do not appear shut out of European markets; they simply may not obtain distribution deals in Europe—or if they do, it may be years later. The loss of potential revenue during those years is significant: more U.S. shows and movies might get made if they could better access European markets. More American content would yield more American jobs: movies and long-running shows directly employ hundreds of people, and indirectly impact our economy by shooting in the United States. Getting American-made content into foreign markets more quickly could also cut down on piracy and illegal downloading.

The U.S. movie and television industry in the United States—over 100,000 businesses, most of which are small—generated $14.3 billion of exports in 2011, which supported 1.9 million American jobs.[26] Providing more opportunities for these businesses is key to expanding job opportunities—from set designers to caterers to gaffers to key grips.

As the United States negotiators look to make progress in this important sector, they should look for inspiration to South Korea. In the lead up to negotiations on the Korea-U.S. Free Trade Agreement, Korea agreed to decrease the mandatory movie screen time for Korean content by 50% (from 146 days per year to 73) and reduced its television quotas for domestic content. Despite the protests from the Korean film industry, the reduced quotas have not harmed the fortunes of the Korean industry at home. In fact, the industry has flourished: a record 114.6 million tickets to Korean-made movies were sold

in 2012[27], which represented a 58.8% market share[28] (up from 42.1% in 2008[29]). Seven of the ten most popular movies in theaters were Korean-made in 2012.[30] Successful TTIP negotiations could open up European film and TV sectors—without destroying domestic filmmaking traditions.

Play It Again, Uncle Sam

In 2006, South Korea cut its domestic movie screening requirement in half in the lead up to trade negotiations with the United States. In 2012, domestic movies set a record for tickets sold in Korea.

THE WINE YOU DRINK

Trade Barrier: Tariffs, Subsidies, and Labeling Restrictions

Even before California wines matched and bested their French counterparts in a famous blind tasting in 1976,[31] European wine producers have enjoyed protection through a variety of subsidies, tariffs, and other trade barriers. The EU and its precursors refused to recognize many U.S. wine-making techniques,[32] added punitive excise taxes, and zealously fought to keep the terms "champagne" and "sherry" off the labels of American-made wines. A 2005 U.S.-EU agreement on wine resolved some of these issues, but remaining restrictions continue to hurt the competitiveness of U.S. wine exports in Europe.

Exports of U.S. wine have grown from $196 million in 1994 to a record $1.43 billion in 2012.[33] This growth supports more and more American jobs for grape pickers, machinery operators, mechanics, salespeople, accountants, and beyond. Overall, 820,000[34] to 1.1 million[35] U.S. workers owe their jobs directly or indirectly to the wine industry.

There is still room for growth. In 2011, the United States was the fourth-largest wine producer in the world—after France, Italy, and Spain—but ranked only seventh in exports, with Germany not trailing far behind.[36] Thirty-four percent of U.S. wine exports went to Europe,[37] but Australia, Chile, and South Africa each export more wine to the EU than the United States does.[38]

Trade barriers such as tariffs, subsidies, and labeling restrictions stand in the way of further growth. The EU places a tariff on American wine of 0.13 Euros to 0.32 Euros per liter, which represents a tariff of roughly 6% to 15%.[39] Individual EU countries can impose additional taxes on wine imports. The overall EU tariff is 200% to 300% higher than the U.S. tariff on EU wine.[40] Moreover, the EU heavily subsidizes wine production: the EU gave out $1.3 billion in subsidies in 2009,[41] which distorts trade by artificially lowering prices and yielding

overproduction. While these policies are being reformed—the days of the surplus 'lake' of "substandard and undrinkable" wine[42] have passed—the EU will continue to subsidize wine production.

Not a Champagne-less Start

Since 1985, presidential inauguration luncheons have featured a toast with California-made Korbel sparkling wine. In 2013, a draft menu called the wine 'champagne' instead of 'California champagne.' French wine producers expressed outrage that this 'traditional term' was misapplied; for the EU, champagne can only come from a certain region in France. The menu was subsequently changed.[43]

Furthermore, the EU places U.S. winemakers at a disadvantage by preventing them from using 'traditional terms' (e.g., champagne, port, reserve, classic, and château) to label their wines even though the EU allows Australia, Chile, South Africa, and other countries to use them.[44] These terms are "descriptive and commercially valuable":[45] without them, EU customers might not understand the type or quality of American wines they see. TTIP negotiations offer the opportunity to achieve lower tariffs, reduced subsidies, and fewer harmful labeling restrictions for U.S. winemakers from across the country—from New Jersey to Napa. After all, in a 2012 blind tasting, New Jersey wines matched their French competitors[46]—all they need is a fair chance to compete in the EU market.

CONCLUSION

Strengthening our trading relationship with the EU has numerous positive ramifications: hundreds of thousands of jobs here at home; cost savings and increased choice for American consumers; and increased growth for our economy. We can seize these benefits by negotiating a successful Transatlantic Trade and Investment Partnership (TTIP) agreement. A robust TTIP will help break down barriers to trade that affect what you buy and the jobs of people that make the products you love. And that means more movie set builders, automotive designers, toymakers, and grape pickers—as well as a booming U.S. economy.

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Endnotes

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