May 26, 2003, Monday London Edition 2

Battles among regulators could damage trade : Financial Times (London) (813 words)

By GUY DE JONQUIERES

As Group of Eight leaders prepare to meet in Evian for their first post-Iraq summit, a fear is gnawing at businesses in both the US and the European Union: that the political rifts opened by the war will not only widen but could soon engulf transatlantic **trade** relations.

Nerves have been jangled by calls in the US Congress for bans on French imports and by sabre-rattling in disputes over US corporate tax law and the **EU** moratorium on genetically modified foods. Other battles loom over US steel tariffs and anti-dumping laws. Meanwhile, the dollar's fall risks reviving protectionist pressures in an economically stagnant Europe.

So far, these problems have been contained. But the fragile state of US-**EU** relations increases the danger that tempers will run out of control, leading to a spiral of tit-for-tat retaliation in which both sides would lose.

Much more is involved than imports and exports. As Joseph Quinlan of Johns Hopkins university argues in a recent paper*, the essential glue holding the transatlantic economic relationship together is not **trade** but direct investment . In 2000, US and European companies owned assets in each others' markets of Dollars 8,800bn (Pounds

5,400bn). Their affiliates' sales totalled Dollars 2,200bn, four times the value of bilateral **trade** , and employed 8.5m workers. US subsidiaries in Europe generated half their parents' foreign income.

As "insiders" in each others' backyards, US and European multinationals have less to fear than exporters from **trade** frictions. While US consumer boycotts have hit France's wine sales, they have barely affected French-owned US subsidiaries, which have sales six times France's direct exports.

Nonetheless, multinationals are not invulnerable. Increasingly, they rely on global supply chains; as a consequence, more than a third of world **trade** today is within companies. As the impact of stricter US border security after September 11 showed, those networks are highly sensitive to **trade** disruptions.

The good news is that global integration is a potent check on governments' temptation to reach for the **trade** weapon. It is much easier to convince politicians that lashing out at foreigners is a bad idea if it directly imperils jobs and prosperity at home.

That argument has made free-traders of governors of many US states that are home to foreign-owned companies. It also explains why protectionist US measures, such as steel tariffs, are increasingly confined to industries that produce only in their home market.

The bad news is that threats to transatlantic **trade** harmony do not stop at borders. The new battlefield is domestic market regulation, which has already sparked US-**EU** skirmishes over issues as varied as data protection, audio-visual services, trademarks and copyright.

More are likely. The National Foreign **Trade** Council, a leading US business association, recently published a 120-page paper attacking **EU regulations** as disguised **trade barriers**. As well as the GM moratorium, its targets include rules and proposals on chemicals, cosmetics and disinfectants.

Such complaints are a measure both of how highly the US and **EU** economies are integrated - and of how far apart they remain. US companies are unhappy about **EU regulations**, as are many European ones, because they have come to take the single market as a given and resent unexpected obstacles.

The problem is that governments have not kept pace. On both sides of the Atlantic, regulators continue to operate as if their markets were closed. Only when it becomes obvious that doing so becomes counter-productive by limiting their own effectiveness, do they accept that it is in their interest to make common cause.

That has been the story in competition policy, the most successful example of transatlantic regulatory co-operation. But it is also the great exception. Although the US and **EU** have different anti-trust laws, they share broadly similar objectives. In other areas of regulation, disagreements often reflect deeper differences in culture, values and concepts of the role of government. That is true above all - as the GM foods dispute shows - of attitudes to regulating risk.

Bridging the divide is a tough task at the best of times. Washington's unilateralist inclinations and impatience with Europe will make it no easier. Nor will it be helped by aggressive attempts by the **EU** to export to the rest of the world its own regulatory "model" in contentious areas such as the environment and consumer safety.

Pursuing these divergences to their logical conclusion could set the US and **EU** on a collision course, with substantial economic and commercial costs. Politicians on both sides of the Atlantic would never be foolish enough to let that happen - would they?

AMERICAN CONSORTIUM ON EUROPEAN UNION STUDIES

Center for Transatlantic Relations
Paul H. Nitze School of Advanced International Studies
The Johns Hopkins University
1717 Massachusetts Avenue NW, Suite 525
Washington, DC 20036-1984
202-663-5880 (phone), 202-663-5879 (fax)
transatlantic@jhu.edu

NETWORK OF EUROPEAN UNION CENTERS