Atlantic Council

EUROPE CENTER

ISSUE BRIEF

Relaunching the Transatlantic Trade Agenda: A European Perspective

JANUARY 2021 EMILIE BEL

Executive Summary

With $1 trillion in two-way trade in goods and services annually, the EU-US relationship remains key for the prosperity of both sides of the Atlantic.[1] The European Union (EU) has always considered the United States a privileged partner with shared values; however, Europeans have suffered from the Donald Trump administration's unpredictability and transactional approach.

The election of Joe Biden offers a window of opportunity to restart the discussion. European institutions have already extended a hand, notably by publishing in December 2020 an ambitious proposal for a new EU-US partnership[2]. Europeans are ready to build a positive trade agenda—but on a balanced basis.

However, the clocks will not wind back to 2016. The global balance has changed, and a new partnership is needed. Trade policy is not just about trade agreements and tariffs, but also reflects technological, security, and geopolitical challenges. Beyond a trade agreement, this paper underlines that a true geopolitical and economic partnership is necessary to address systemic issues.

By analyzing the lessons learned from the failure of the Transatlantic Trade and Investment Partnership (TTIP) negotiations and drawing on interviews with European officials, this paper recommends adopting a step-by-step approach that pays greater attention from the start to the concerns of public opinion—notably, on climate change—the diversity of European sensitivities, and the need to rebuild trust progressively.

Relaunching the transatlantic trade agenda can follow three routes, which are not mutually exclusive, including

1. lifting Trump's tariffs and starting by re-engaging on conformity assessment negotiations;

1 Sabine Weyand, "EU Open Strategic Autonomy and the Transatlantic Trade Relationship," Delegation of the European Union to the United States, September 17, 2020, https://eeas.europa.eu/delegations/united-states-america/85321/eu-open-strategic-autonomy-and-transatlantic-trade-relationship_en.

2 "EU-US: A new transatlantic agenda for global change", European Commission, press release, December 2, 2020, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2279

2. building a partnership on issues of shared geopolitical ambitions, notably China's disruption of trade rules, foreign investment screening and export control, digital trade and technologies, climate change, and supply-chain security; and
3. reforming together the World Trade Organization (WTO) by updating the rule book to better reflect current global economic challenges, resolving the WTO dispute-settlement system standoff, and reinforcing the WTO's monitoring role.[3]

Introduction[4]

Europeans awaited Joe Biden's victory with bated breath as the votes were being counted. They are eager to put behind them the four years of the Trump administration, in which transatlantic trade relations suffered. Tariffs on EU exports of steel and aluminum, the repeated threats by President Trump to impose additional tariffs on European products, Brussels' retaliatory measures, the launch of a US investigation into digital-services tax (DST) policies in the EU, and the endless Airbus-Boeing dispute at the WTO have poisoned the trade relationship between the two largest trade and investment partners in the world.[5]

Given the emergency of the post-COVID-19 economic recovery and the global nature of current challenges, especially those posed by China, a new US-EU balanced partnership is more necessary than ever. This cannot be a return to 2016; the EU-US trade relationship, the European and US approaches to multilateralism, and the global balance have all changed. What comes next must be something altogether different. The election of Joe Biden can offer a window to do just that and restart the discussion.

The EU has always considered the United States a privileged partner, and its "most important diplomatic, economic, political and security relationship in the world" as underlined by Valdis Dombrovskis, European Commission executive vice president in charge of trade.[6] However, Europeans' trust in the United States today has been weakened.[7] They have suffered from the Trump administration's unpredictability, and now yearn for stability and predictability in transatlantic relations. Restoring trust and a balanced relationship will be the key to building a positive trade agenda.

Europeans are ready to build something positive, but on a balanced basis

Although European member states have divergent views of US-EU relations, they shared their worries about the future of transatlantic trade, and are now hopeful after the election of Joe Biden. They are eager to start building something positive—but want to be considered as equals, not as junior partners that can be bullied by the threat of tariffs.

Despite a difficult trade relationship with the Trump administration compounding preexisting issues, notably the extraterritorial reach of US law, Europeans have shown their willingness to engage the United States. Work continued at a technical level, and even led to high-level political breakthroughs. The July 2018 joint statement, in which Trump and the then-European Commission President Jean-Claude Juncker committed to close friendship and strong trade relations, was a good start.[8] The EU then showed its goodwill in April 2019, when the Council of the EU approved the reopening of negotiations with the United States on the elimination of tariffs for industrial goods and on conformity assessment.[9]

August 2020 saw another positive development, when the EU and the United States announced their first negotiated

3 "European Commission Presents Comprehensive Approach for the Modernisation of the World Trade Organisation," European Commission, September 18, 2018, http://trade.ec.europa.eu/doclib/press/index.cfm?id=1908.

4 This issue brief expands upon an earlier blog post by the same author. Emilie Bel, *Relaunching the Transatlantic Trade Agenda, Atlantic Council*, September 30, 2020, https://www.atlanticcouncil.org/blogs/new-atlanticist/relaunching-the-transatlantic-trade-agenda-a-european-perspective/.

5 Philip Blenkinsop and Michael Nienaber, "EU 'Regrettably' Hits U.S. with Tariffs, Seeks Better Biden Ties," Reuters, November 9, 2020, https://www.reuters.com/article/us-usa-trade-eu-idUSKBN27P102; "Trade—United States," European Commission, April 23, 2020, https://ec.europa.eu/trade/policy/countries-and-regions/countries/united-states/.

6 "EU Trade: Speech by EVP Dombrovskis at BusinessEurope Event 'EU-US: How to Build a Positive Agenda,'" European Commission, September 14, 2020, https://ec.europa.eu/commission/commissioners/2019-2024/dombrovskis/announcements/eu-trade-speech-evp-dombrovskis-businesseurope-event-eu-us-how-build-positive-agenda_en.

7 Steven Erlanger, "Europe Wonders if It Can Rely on U.S. Again, Whoever Wins," *New York Times*, October 22, 2020, https://www.nytimes.com/2020/10/22/world/europe/europe-biden-trump-diplomacy.html.

8 "Joint U.S.-EU Statement Following President Juncker's Visit to the White House," European Commission, press release, July 25, 2018, https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_18_4687.

9 "Trade with the United States: Council Authorises Negotiations on Elimination of Tariffs for Industrial Goods and on Conformity Assessments," Council of the European Union, press release, April 15, 2019, https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/.

Maersk container ship is loaded at a harbour terminal in Bremerhaven, Germany October 31, 2020. REUTERS/Fabian Bimmer.

reductions in duties in more than two decades, with the elimination of European tariffs on imports of US live and frozen lobster products, in exchange for the reduction of US tariffs on a range of European products, including glassware, ceramics, and disposable lighters.[10] In commercial terms, the agreement is small and narrow. However, given its focus on symbolic US products, it is better understood as a sign of the EU's will to build a positive trade agenda.

These signs of goodwill were accompanied by firmness on core issues—in particular, the need to ensure a balanced relationship. The April 2019 EU Council mandate notably set clear red lines: trade negotiations cannot be concluded as long as the tariffs on EU exports of steel and aluminum, imposed in May 2018, are still in place. In March 2019, the European Parliament also opposed the reopening of negotiations, asserting that the EU, unlike the United States, had already offered many concessions.

Today there is a strong European will to build a positive agenda with the United States. As soon as Joe Biden was elected, European institutions formalized a proposal for a renewed transatlantic dialogue.[11] However, neither EU signs of goodwill nor the new hope created by the victory of Joe Biden must hide a reality: the failure of TTIP negotiations left a mark, and the European state of mind has changed.

10 "Joint Statement of the United States and the European Union on a Tariff Agreement," European Commission, press release, August 21, 2020, https://trade.ec.europa.eu/doclib/press/index.cfm?id=2178.

11 "EU-US: A new transatlantic agenda for global change", European Commission, press release, December 2, 2020, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2279

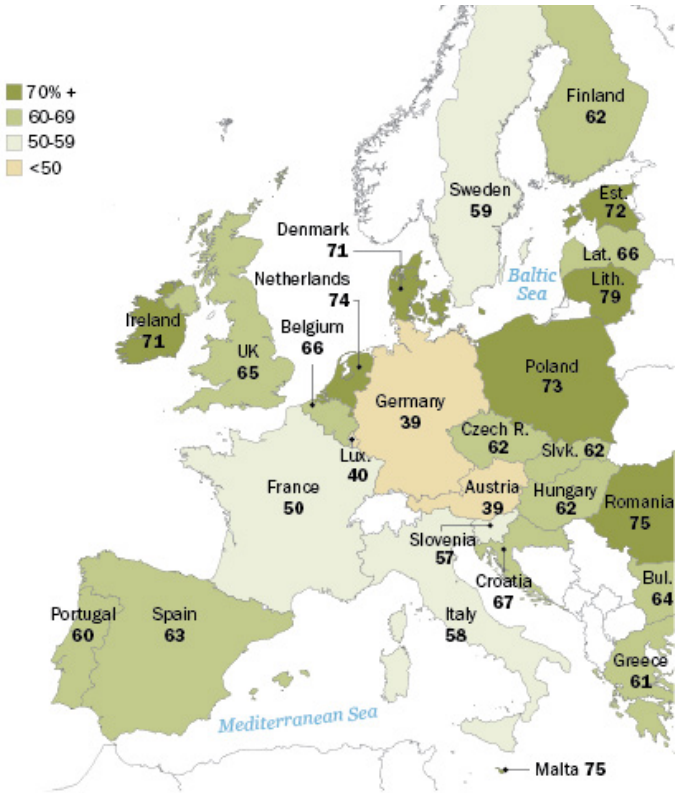
Lessons learned from the failure of the TTIP negotiations

While the TTIP was a priority for President Barack Obama's administration, it became clear during summer 2016 that the deal could not be concluded during the last months of his term. The victory of Donald Trump, who campaigned against free-trade agreements, left few chances to resume the TTIP negotiations. This could have been also the case with Hillary Clinton, who opposed the agreement. However, the failure of the negotiations is shared on both sides of the Atlantic, and was likely to happen whatever the result of the 2016 US election.

In August 2016, Sigmar Gabriel, German economy minister, said on ZDF that "the negotiations with the United States have de facto failed although nobody really admits to it," pointing out the fact that after "14 rounds of negotiations made into 27 chapters there was not a single joint statement."[12] In May 2016, things had already started to sour when France claimed that rules were too favorable to US businesses and threatened to block the negotiations. Moreover, the departure of the United Kingdom (UK), one of the strongest supporters of TTIP, from the EU changed the balance.

While a majority (58 percent) of Europeans supported a EU-US free-trade and investment agreement in fall 2014, public opposition to the trade deals rose in 2015 and 2016, with criticisms focusing on the lack of transparency, the threat to European food-safety, labor, and environmental standards and a perceived danger for democracy.[13] The investor-state dispute settlement was a sore point, and was especially criticized as undermining consumer protection for the benefit of multinational corporations. From 2015, demonstrations opposed to TTIP and the Comprehensive Economic and Trade Agreement (CETA) were organized across Europe, gathering hundreds of thousands of participants, especially in Berlin and Brussels.[14] In October 2015, organizers of the "Stop TTIP" campaign declared that in a year, and in coordination with five hundred organizations, they had collected more than 3.2 million signatures of EU citizens from twenty-three member states.[15] It was a record for a European Citizens' Initiative.

Figure 1. EU Support for a Free Trade Agreement with the US



In January 2015, the Pew Research Center highlighted that the European countries in which public opinion was the least in favor of a free-trade and investment agreement with the United States were Austria (53 percent oppose), Germany (41 percent), and Luxembourg (43 percent). The most supportive countries were the Netherlands (74 percent support), Poland (73 percent), Denmark (71 percent), and Ireland (71 percent).
Source: Pew Research Center.

European opposition to TTIP was diverse.[16] It gathered both nationalist parties and traditionally progressive and pro-EU forces like the Greens. Some parties even changed their positions on TTIP during the 2014 European elections,

12 "'TTIP has Failed,' Germany's Vice-Chancellor Says," *Euronews,* August 28, 2016, https://www.euronews.com/2016/08/28/ttip-has-failed-germany-s-vice-chancellor-says.

13 Bruce Stokes, "Is Europe on Board for a New Trade Deal with the U.S.?" Pew Research Center, January, 29 2015, https://www.pewresearch.org/fact-tank/2015/01/29/is-europe-on-board-for-a-new-trade-deal-with-the-u-s/.

14 Julia Rone, "Why Europeans May Not Want a U.S. Trade Deal," *Washington Post,* October 4, 2018, https://www.washingtonpost.com/news/monkey-cage/wp/2018/10/04/why-europeans-may-not-want-a-u-s-trade-deal/; Michael Nienaber, "Tens of Thousands Protest in Europe against Atlantic Free Trade Deals," Reuters, September 17, 2016, https://uk.reuters.com/article/us-eu-usa-ttip/tens-of-thousands-protest-in-europe-against-atlantic-free-trade-deals-idUKKCN11N0H6; "Thousands Protest against CETA and TTIP in Brussels," September 20, 2016, https://www.dw.com/en/thousands-protest-against-ceta-and-ttip-in-brussels/a-19564581.

15 Eszter Zalan, "'Stop TTIP' Activists Hand EU 3mn Signatures," *EUobserver,* October 7, 2015, https://euobserver.com/institutional/130587.

16 Rone, "Why Europeans May Not Want a U.S. Trade Deal."

Figure 2. EU-27 exports of goods to the United States in 2019

	EUR million	% of the United States in extra EU-27 exports
Germany	119 397	18.9
Ireland	46 687	49.1
Italy	45 584	19.4
France	42 431	17.2
Netherlands	29 476	13.4
Belgium	24 698	17.7
Spain	13 729	11.4
Sweden	11 427	16.7
Denmark	10 103	21.4
Austria	9 871	19.2
Poland	6 768	10.9
Finland	4 926	16.6
Czechia	4 093	11.2
Portugal	3 023	17.2
Hungary	2 668	11.1
Slovakia	2 480	15.4
Greece	1 305	8.1
Romania	1 284	7.0
Lithuania	1 100	8.3
Estonia	977	21.5
Slovenia	600	5.4
Bulgaria	534	5.1
Croatia	412	7.9
Luxembourg	406	13.7
Latvia	205	3.9
Malta	116	9.3
Cyprus	68	3.7

Source: EUROSTAT.

Figure 3. EU-27 imports of goods from the United States in 2019

	EUR million	% of the United States in extra EU-27 imports
Germany	54 173	13.3
Netherlands	43 982	13.0
France	31 956	15.4
Belgium	28 692	18.8
Italy	16 999	9.3
Spain	13 277	8.8
Ireland	12 241	22.5
Poland	5 459	6.9
Austria	4 849	12.3
Sweden	4 172	8.6
Czechia	3 150	7.6
Denmark	3 025	10.4
Hungary	1 747	5.8
Portugal	1 505	7.2
Finland	1 420	6.9
Greece	1 223	4.5
Romania	805	3.4
Luxembourg	686	19.4
Slovakia	504	3.0
Lithuania	478	4.5
Slovenia	341	2.3
Bulgaria	308	2.9
Estonia	172	4.4
Croatia	168	3.2
Latvia	152	3.6
Cyprus	132	3.9
Malta	119	4.0

Source: EUROSTAT.

such as the UK Independence Party (UKIP) or Alternative for Germany (AfD), mainly under pressure from their voters. Public opinion had a great impact on the lack of support for TTIP, especially in countries holding national elections at the same time.

Several lessons have to be learned from the TTIP negotiations. First, the TTIP was extremely ambitious; in hindsight, it was certainly too ambitious. Its scope—including agriculture, industrial and consumer products, services, regulatory issues, and public procurement—was too large. Conducting fifteen rounds of negotiations without an agreement on a single chapter shows that the method was not appropriate. Second, concern for public opinion must be included from the onset in any future negotiations. This may be more burdensome for negotiators and politicians, but transparency and public engagement are crucial to ensure public support. If not, there is a high risk of a difficult political fight down the road.

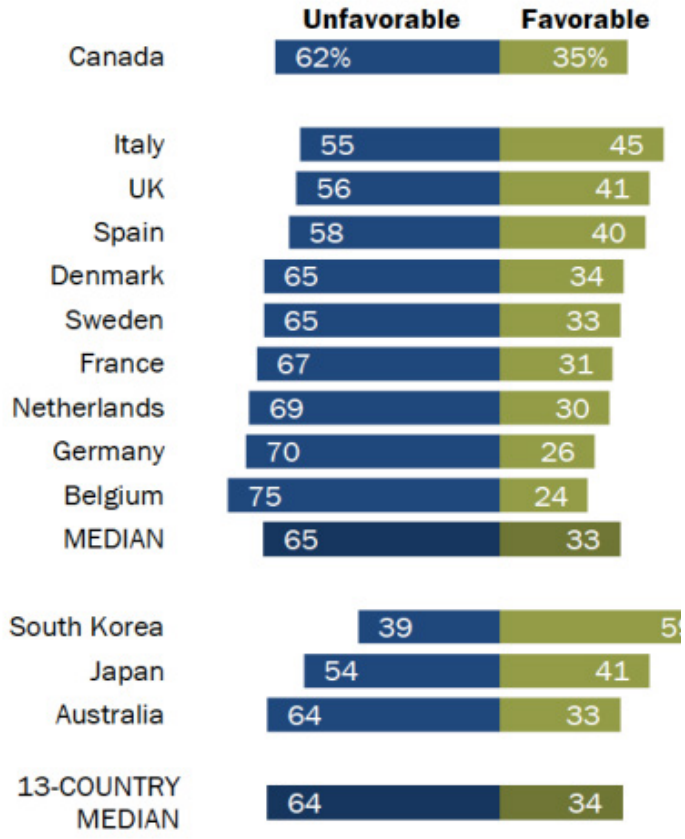
The current political situation in the EU

True to the EU's motto, "united in diversity," member states approach trade with the United States from different angles, depending on their export position or political appetite for protecting their industry. In 2019, the largest EU exporter of goods to the United States was Germany, followed by Ireland and Italy.[17] Given its position, as well as its strong tradition of supporting free trade, Germany is extremely cautious and sensitive to US threats, notably fearing for its car exports. Ireland and Italy are upset about the Airbus-Boeing conflict. Their deep trade relationships with the United States are impacted by a dispute in which they have little to no stake, as they are not "Airbus member states." France sees respect for the Paris Agreement on climate change as a prerequisite to any trade negotiations, and therefore voted against the EU mandates to reopen negotiations in April 2019. Countries from Northern Europe and Eastern Europe tend to be historically favorable to strong relations with the United States, including regarding trade.

Besides member-state politics, European institutions also have different takes on the issue. In March 2019, the European Parliament opposed a resolution recommending the start of the negotiations with the United States. Even if the resolution was not binding, it was a clear political signal. It considered that the EU, unlike the United States, had already offered many concessions. More recently, in October 2020, the European Parliament voted in favor of an amendment to prevent the trade agreement with Mercosur,

17 "USA-EU—International Trade in Goods Statistics," Eurostat, March 2020, https://ec.europa.eu/eurostat/statistics-explained/index.php/USA-EU_-_international_trade_in_goods_statistics#Trade_with_the_United_States_by_Member_State.

Figure 4. Percentage of positive and negative opinion of the United States around the world in 2020



Source: PEW Research Center.

the South American trade bloc, from being ratified in its current form, especially due to Brazil's climate policies.[18]

The European Parliament doesn't take part in the trade negotiations led by the European Commission, but it can issue resolutions that recommend a course of action. More importantly, it must give its consent to the final text of the agreement, jointly with the Council of the EU.[19] Essentially, this means that the European Parliament can veto trade agreements. Moreover, if the potential US-EU trade agreement was a "mixed agreement," as CETA was, it would require ratification by each member state—generally by national parliaments.

Therefore, public opinion carries substantial clout in that process. The European Parliament, which represents the EU's citizens, is quite sensitive to these concerns. For years, trade deals have been a difficult sell for the European public, as exemplified by the recent fight over the ratification of CETA. By opposing the Mercosur agreement, it is echoing the growing popular opposition in numerous EU member states. Today, there is a strong consensus among member states and European institutions that no trade agreement can be negotiated if it is not consistent with the Paris Agreement on climate change.

Moreover, EU public opinion is less favorable to the United States today than in the past. The United States' reputation has indeed deteriorated, according to an analysis published by the Pew Research Center in September 2020.[20] In several European countries, citizens hold an overall negative opinion of the United States, from 55 percent unfavorable in Italy and 56 percent in the UK, to 70 percent in Germany and 75 percent in Belgium.

While the European institutions remain transatlanticist, this is now less of a unanimous feeling, especially in the European Parliament. The EU suffered from Trump's unpredictability and unreliability, and is keen to relaunch a positive trade agenda on the basis of a serene relationship.

What's next? The need for a new trade relationship

With Joe Biden, Europeans hope, first of all, for a change in style; they hope for trust, mutual respect, and balance. During his campaign, despite the priority given to domestic issues, Joe Biden expressed his intent to restore a strong relationship and cooperation with US allies, especially Europeans, on issues such as China, trade, and climate, beginning with recommitting the United States to the Paris Agreement.[21]

However, Joe Biden winning the election does not mean that the clocks will wind back to 2016, when TTIP negotiations ended. The EU-US trade relationship, the European and US approaches to multilateralism, and the global balance have

18 "Brazil Keen to Show EU-Mercosur Accord Still Has Support in Europe," Reuters, October 13, 2020, https://www.reuters.com/article/us-brazil-eu-trade-idUSKBN26Y1UB.

19 "Negotiating EU Trade Agreements," European Commission, 2018, https://trade.ec.europa.eu/doclib/docs/2012/june/tradoc_149616.pdf.

20 Richard Wike, Janell Fetterolf, and Mara Mordecai, "U.S. Image Plummets Internationally as Most Say Country Has Handled Coronavirus Badly," Pew Research Center, September 15, 2020, https://www.pewresearch.org/global/2020/09/15/us-image-plummets-internationally-as-most-say-country-has-handled-coronavirus-badly/.

21 "Explore All of Joe Biden's Plans," Biden for President, https://joebiden.com/joes-vision/; Andrea Shalal and David Lawder, "Biden Would End Trade War with EU, but Focus on Fixing Imbalance in Ag Trade: Adviser," Reuters, September 22, 2020, https://www.reuters.com/article/us-usa-trade-eu-biden-idUSKCN26D1UN.

changed. "It is time for a new transatlantic agenda fit for today's world," as European Commission President Ursula von der Leyen said after Biden's election.[22]

This will be more critical than ever. The EU-US relationship is, after all, the pillar of the world economy, with $1 trillion of two-way trade in goods and services annually.[23] Deepening that flow is essential to the post-COVID-19 economic recovery.

It is critical to preserve the values and interests that link the EU and the United States—these values shape the world. Both share common concerns, from securing supply chains to dealing with unfair Chinese trade practices. As Clément Beaune, France's minister of state for European affairs, argues, "while not sharing the same style and method, Brussels had the same analysis as Washington when it came to China's aggressive anti-competitive attitude"—and it shares the same interest in addressing it.[24]

A balanced trade relationship is needed to find transatlantic answers to global threats. "Trade politics is no longer exclusively about trade policy. It is often a proxy for security, technology, geopolitics and more," as underlined by then-Trade Commissioner Phil Hogan.[25] Common US-EU answers to challenges such as the rise of China, climate change, cybersecurity, data privacy, and artificial intelligence can form the basis on which to shape a global trading system in which services, especially digital ones, are increasingly supplementing flows of manufactured goods. As Europe and the United States enter a strategic environment marked by great-power politics, they cannot afford to be at odds on trade.

To relaunch the transatlantic trade agenda, both partners will need to adopt a balanced stance, and would do well to start from current challenges. US-EU trade discussions have a long history; trade veterans still have in mind the chlorinated chicken fights, or the ambitions for a transatlantic agreement in the 1990s.[26]

It is time to approach the trade dialogue with new software, having in mind the values that the United States and EU share, their unique and special relationship, their shared interests, and their impact on the rest of the world. Eager to move forward rapidly, European institutions have already extended a hand by publishing a concrete proposal entitled "A new EU-US agenda for global change" on December 2nd, 2020, including the idea to create a "EU-US Trade and Technology Council (TTC)."[27]

Whatever the framework, a step-by-step transparent process underpinned by a larger architecture offers the best chance to rebuild trust and keep public support. This could go down three different paths. These paths are not mutually exclusive and could be pursued simultaneously.

Lifting Trump's tariffs and starting by re-engaging on conformity assessment negotiations

First, as advocated by Michael Carpenter, managing director of the Penn Biden Center for Diplomacy and Global Engagement, fixing the economic relationship starts with stopping Trump's trade war by removing transatlantic tariffs.[28] Solving the Boeing-Airbus dispute would also go a long way. The European Union and its member states see fixing those two "irritants" as a starting point for the new relationship.

Second, if TTIP serves as a lesson, a future trade agreement would do well to start with a limited scope that could be extended gradually if negotiations are successful. The April 2019 EU mandates suggested that the negotiations could start by focusing on the "elimination of tariffs for industrial goods only," as well as an agreement on "conformity assessment that would have as its objective the removal of non-tariff barriers."[29]

The United States, from its side, is keen to negotiate on agriculture. Tony Blinken, an advisor to Joe Biden and nominee for secretary of state, recalled during the campaign

22 Hans Von der Burchard, "Von der Leyen: Biden Win Means New Partnership with US," *Politico,* November 10, 2020, https://www.politico.eu/article/ursula-von-der-leyen-joe-biden-new-partnership-united-states-eu/.

23 Weyand, "EU Open Strategic Autonomy and the Transatlantic Trade Relationship."

24 Clément Beaune, *Europe after COVID*, *Atlantic Council,* September 14, 2020, https://www.atlanticcouncil.org/commentary/feature/europe-after-covid/.

25 "'Refreshing Transatlantic Trade Relations': Keynote Address by Commissioner Phil Hogan at Centre for Strategic and International Studies (CSIS), Washington, DC," European Commission, January 16, 2020, https://ec.europa.eu/commission/commissioners/2019-2024/hogan/announcements/refreshing-transatlantic-relations-keynote-address-commissioner-phil-hogan-centre-strategic-and_en.

26 Marc L. Bush, "US, UK Play Chicken Over Chlorinated Chicken," *Hill,* August 17, 2020, https://thehill.com/opinion/international/512235-us-uk-play-chicken-over-chlorinated-chicken.

27 "EU-US: A new transatlantic agenda for global change", European Commission, press release, December 2, 2020, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2279.

28 Michael Carpenter, "5 Ways to Fix America's Broken Ties with Europe," *Politico*, August 4, 2020, https://images.politico.eu/article/5-ways-to-fix-americas-broken-ties-with-europe/.

29 "Trade with the United States: Council Authorises Negotiations on Elimination of Tariffs for Industrial Goods and on Conformity Assessments."

that there is a "persistent, growing imbalance in agricultural goods trade" with the EU that Joe Biden would like to address.[30] However, the EU—and European public opinion especially—does not want to speak about agriculture. Starting there would lead negotiations to an impasse.

After years of a difficult relationship with the Trump administration, re-engaging on conformity assessment would therefore be an excellent way to restart the dialogue. It has significant potential to facilitate transatlantic trade given that standards and regulations are today the main barriers to markets access.[31]

Negotiating on issues of shared geopolitical ambitions

What's really needed is not just a trade agreement, but a true geopolitical and economic partnership. It's an absolute necessity to address systemic issues that are trade related. Here, shared geopolitical ambitions and interests are numerous.

China: an "economic competitor and a systemic rival"[32]

While being a major trading partner of both the United States and the EU, China is "an economic competitor, a systemic rival" as labeled by President von der Leyen, as well as a technological disruptor that doesn't respect international rules.[33] China's unfair commercial practices destabilize both the United States and the EU, while representing a threat to global trade. The issues to address are numerous, and concern asymmetry in market access, non-tariff barriers to trade, industrial subsidies, forced technology transfers, intellectual-property infringement, and economic dependence on Chinese supply chains.[34] Beyond these economic issues, China's human-rights abuses and oppression of democracy are issues the United States and the EU can't tolerate, given their common values.

Building a strong US-EU alliance is an absolute necessity to address these issues. Joe Biden is keen to act with the EU, and countering China's commercial practices is clearly an area of common interest.[35]

However, the issue is as much about confronting China as it is about addressing the underlying conditions that allow China to act as it does. A multilateral solution, led by the United States and the EU within the WTO, is necessary. The multilateral rulebook has to be reformed to prevent China from distorting markets and investment flows.[36] Moreover, the EU and the United States could dialogue and more closely align their investment-screening mechanisms to confront China's unfair investments.

Foreign-investment screening and export control

The EU has launched a framework for screening of foreign direct investment (FDI), functional from October 2020.[37] It is similar in purpose to the Committee for Foreign Investments in the United States (CFIUS), though it is much more modest at this stage. Indeed, this EU-wide framework facilitates the coordination of actions between the European Commission and the member states. It especially asks EU member states to notify the European Commission of their national mechanisms, establishes formal contact points and secure channels, and develops procedures to rapidly respond to FDI concerns. It is a significant first step to address foreign—including Chinese—hostile takeovers of European companies.

The EU, European member states, and the United States could share best practices, more closely align their investment-screening mechanisms, or even reach a common understanding of the appropriate level of government subsidy of foreign investors as a basis for coordinating the screening of FDIs, as proposed by the German Marshall Fund (GMF) transatlantic task force.[38]

30 Shalal and Lawder, "Biden Would End Trade War with EU, but Focus on Fixing Imbalance in Ag Trade: Adviser."

31 "EU-US: A new transatlantic agenda for global change", European Commission, press release, December 2, 2020, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2279.

32 "State of the Union Address by President von der Leyen at the European Parliament Plenary," European Commission, September 16, 2020, https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_1655.

33 Ibid.

34 "Statement by President von der Leyen at the Joint Press Conference with President Michel and Chancellor Merkel, Following the EU-China Leaders' Meeting via Videoconference," European Commission, September 14, 2020, https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_20_1644.

35 Shalal and Lawder, "Biden Would End Trade War with EU, but Focus on Fixing Imbalance in Ag Trade: Adviser."

36 "'Refreshing Transatlantic Trade Relations': Keynote Address by Commissioner Phil Hogan at Centre for Strategic and International Studies (CSIS), Washington, DC."

37 "EU Foreign Investment Screening Mechanism Becomes Fully Operational," European Commission, press release, October 9, 2020, https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1867.

38 "Together or Alone? Choices and Strategies for Transatlantic Relations for 2021 and Beyond," German Marshall Fund of the United States, October 6, 2020, https://www.gmfus.org/publications/together-or-alone-choices-and-strategies-transatlantic-relations-2021-and-beyond.

U.S. House Speaker Nancy Pelosi (D-CA) speaks with EU Commissioner for Trade Phil Hogan, and European Commission President Ursula von der Leyen as she arrives for a meeting at EU headquarters in Brussels, Belgium, February 17, 2020. Virginia Mayo/Pool via REUTERS.

On export control of strategic goods, a dialogue between the United States and the EU will be key as well. European countries and the United States are more and more worried about technology exports such as robotics, semiconductors, or quantum computing, especially to China. While they are strengthening their rules, a dialogue between the United States and the EU appears essential.

Digital trade and technologies

In global trading systems, services—especially digital ones—are increasingly supplementing flows of manufactured goods. Global economies are digital, and the digital world is changing extremely quickly, raising more data-protection and privacy issues. Moreover, artificial intelligence, cybersecurity, fifth-generation (5G) and sixth-generation (6G) technologies, and cryptocurrencies are relatively new and need to be regulated. Like economies, technological threats are global.

Moreover, it is easier to create common standards when starting from a blank slate, rather than trying to harmonize existing frameworks. Today, there is an opportunity for strong US-EU cooperation to co-design common standards where they don't yet exist, in fields like artificial intelligence and cryptocurrency.[39] Finnish-American author Anu Bradford often underlines the EU's regulatory superpower, arguing that EU regulations "influence the everyday lives of individuals around the world"—something that could

39 "EU-US: A new transatlantic agenda for global change", European Commission, press release, December 2, 2020, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2279.

be turned into an asset for US policymakers.[40] However, it has to be done on a balanced basis, and with a reciprocity principle.

Beyond technological standards and regulation, there are governance and tax issues. For the EU, fair taxation of the digital economy is at the top of its political agenda. Finding a compromise on global digital taxes within the Organisation for Economic Co-operation and Development (OECD) will be difficult, but having the United States back to the talks will be essential.[41] The EU is convinced that the best way to progress is through an OECD agreement worldwide, not unilateral measures.[42]

Climate change

Taking the environmental dimension into account will be essential for the political acceptability of any EU-US trade agreement. European public opinion, member states, and institutions are extremely concerned about climate change, as exemplified by July 2018 European Parliament resolution to make ratification and implementation of the Paris Agreement a condition for future trade agreements.[43]

This concern is shared on both sides of the Atlantic. A majority of US citizens is convinced that climate change is a significant threat, and numerous US states and cities are taking action. Joe Biden gave the fight against climate change a significant place in his campaign. He pledged to "recommit the US to the Paris Agreement" and to go beyond, especially by "fully integrating climate change into US foreign policy and national security strategies, as well as US approach to trade."[44]

It is time for a renewed partnership to put in place common concrete actions, such as investing together in research and development (R&D) to develop technologies for improving energy efficiency, capturing carbon, and expanding renewables.[45] From a trade perspective, several leads could be explored. Among them, from July to October 2020, the European Commission conducted "public consultations on energy taxation and a carbon border adjustment mechanism" that would be part of the European Green Deal.[46] A common EU-US mechanism would be a significant incentive for companies to invest in low-carbon technologies. Such an initiative could be included in a larger "transatlantic green trade agenda" as suggested by the European Commission.[47]

Supply-chain security

Today's world is one of interconnections, which is a significant advantage for trade, traveling, and information—but, as the pandemic highlighted, it also creates vulnerabilities. Both the EU and the United States suffered from their dependence on global supply chains for medicines and medical equipment, such as ventilators and surgical masks, especially from China and India.[48]

As other pandemics (even worse ones) could happen in the future, it is essential to be better prepared. There is now a necessity to identify supply chains' vulnerabilities and dependencies to increase their diversity and resilience. The EU is working to address medical supply-chain dependencies, notably by setting up an agency for biomedical advanced research and development (a European BARDA).[49] The United States already has one, but is also working on diversifying its supply chains.

The EU and the United States could mutualize their efforts, and work together to put in place resilient transatlantic supply chains regarding medicines and medical equipment through common medical research and development.[50] This can also drive the World Trade Organization to develop

40 Anu Bradford, *The Brussels Effect: How the European Union Rules the World* (Oxford: Oxford University Press, 2020), https://global.oup.com/academic/product/the-brussels-effect-9780190088583?cc=us&lang=en&.

41 Andrea Shalal, "EU Urges U.S. to Return to Negotiations at OECD on Digital Taxes," Reuters, July 10, 2020, https://www.reuters.com/article/us-usa-trade-france-eu-idUSKBN24B2EV.

42 "EU Trade: Speech by EVP Dombrovskis at BusinessEurope Event 'EU-US: How to Build a Positive Agenda."

43 "Texts Adopted," European Parliament, July 3, 2018, https://www.europarl.europa.eu/doceo/document/TA-8-2018-0280_EN.html.

44 "The Biden Plan for a Clean Energy Revolution and Environmental Justice," Biden for President, https://joebiden.com/climate-plan/.

45 Michael Carpenter, "5 Ways to Fix America's Broken Ties with Europe," *Politico*, August 4, 2020, https://images.politico.eu/article/5-ways-to-fix-americas-broken-ties-with-europe/.

46 "Commission Launches Public Consultations on Energy Taxation and a Carbon Border Adjustment Mechanism," European Commission, July 23, 2020, https://ec.europa.eu/taxation_customs/news/commission-launches-public-consultations-energy-taxation-and-carbon-border-adjustment-mechanism_en.

47 "EU-US: A new transatlantic agenda for global change", European Commission, press release, December 2, 2020, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2279.

48 Jonathan Hackenbroich, Jeremy Shapiro, and Tara Varma , "Health sovereignty: How to build a resilient European response to pandemics", June 29, 2020, https://ecfr.eu/publication/health_sovereignty_how_to_build_a_resilient_european_response_to_pandemics/

49 "State of the Union 2020," European Commission, September 16, 2020, https://ec.europa.eu/info/sites/info/files/soteu_2020_en.pdf.

50 "EU-US: A new transatlantic agenda for global change", European Commission, press release, December 2, 2020, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2279.

A logo is pictured on the headquarters of the World Trade Organization (WTO) in Geneva, Switzerland, June 2, 2020. REUTERS/Denis Balibouse

more diverse and resilient supply chains, in order to better anticipate potential future pandemics. In that respect, the EU invites the US to take part in the Trade and Health Initiative.[51]

Reforming the WTO[52]

Restarting the transatlantic trade relationship also entails talking about the WTO. Reforming the WTO is a top European priority. The global trading order is currently threatened, to the benefit of China, by trade-distorting measures like industrial subsidies, while the WTO's rulebook fails to fully grasp what trade looks like today. According to the EU, the WTO remains a "centerpiece of world trade" because it upholds a trading system based on predictable and fair rules that economic players can trust.[53] The EU and the United States, together, built this global trading system. They largely agree on what the problems are, but their opinions differ on the solutions.[54] A deep overhaul of the WTO is now fundamental to restore a fair global trade competition, and only a strong US-EU cooperation, in partnership with Japan, will make it possible. While remaining totally open to the dialogue,

51 Ibid.

52 Weyand, "EU Open Strategic Autonomy and the Transatlantic Trade Relationship."

53 Ibid.

54 "EU Trade: Speech by EVP Dombrovskis at BusinessEurope Event 'EU-US: How to Build a Positive Agenda'."

the EU is convinced that the following WTO functions are essential.[55]

Updating the WTO's rulebook to better reflect the current global economic challenges

The WTO's rulebook, written twenty-five years ago, is not fit for today's world, where China is a major player. It is necessary to update this rulebook with clear rules, to put in place a level playing field that captures the realities of a global economy driven by technology and deep interconnections. That means introducing rules on industrial subsidies, rules on digital trade, and rules that help deal with the climate emergency.

Resolving the WTO dispute-settlement system standoff

The deadlock of the appellate body furthers the WTO crisis. The EU is keen to get the system working again, but also to fix its dysfunctions. For instance, the dispute-settlement system is not fully satisfactory given the lengthy delays to get to final adjudications. The EU wants to restore a two-stage dispute-settlement mechanism, and this can only be done in cooperation with the United States.

Reinforcing the WTO's monitoring role

The WTO plays also an important role in preventing disputes from arising through the regular monitoring function. This can be furthered. For instance, the WTO secretariat was, at first, particularly reluctant to monitor the trade restrictions set up as a result of the COVID-19 crisis.

Reforming the WTO is essential. The EU feels this is an issue best addressed in the framework of transatlantic cooperation.[56] The EU made proposals to reform the WTO, but stays very open to, as a first step, a frank transatlantic discussion to share an assessment of what led the WTO to such a deadlock and what form the solutions might take.

About the author

Emilie Bel is a European and International Affairs expert with a financial background and a decade-long experience working in Brussels and Paris.

Before moving to Washington DC, she was Head of International Affairs of the French Insurance Federation (FFA), in charge of managing institutional engagement on financial topics with European institutions, international organizations (OECD, UN, IMF, IAIS) and multilateral fora (G20/B20, G7/B7). Prior to that, she lived in Brussels where she worked as European Affairs Manager at the FFA. She has also taught for several years European Affairs courses at Paris Dauphine University and now guest lectures on the topic in the US.

The author would like to thank all those who contributed to this report and notably the European officials and MEPs who took the time to answer questions.

55 "European Commission Presents Comprehensive Approach for the Modernisation of the World Trade Organization," European Commission, September 18, 2018, http://trade.ec.europa.eu/doclib/press/index.cfm?id=1908.

56 "'Refreshing Transatlantic Trade Relations': Keynote Address by Commissioner Phil Hogan at Centre for Strategic and International Studies (CSIS), Washington, DC."

Atlantic Council

Board of Directors

CHAIRMAN
*John F.W. Rogers

EXECUTIVE CHAIRMAN EMERITUS
*James L. Jones

PRESIDENT AND CEO
*Frederick Kempe

EXECUTIVE VICE CHAIRS
*Adrienne Arsht
*Stephen J. Hadley

VICE CHAIRS
*Robert J. Abernethy
*Richard W. Edelman
*C. Boyden Gray
*Alexander V. Mirtchev
*John J. Studzinski

TREASURER
*George Lund

DIRECTORS
Stéphane Abrial
Todd Achilles
*Peter Ackerman
Timothy D. Adams
*Michael Andersson
David D. Aufhauser
Colleen Bell
*Rafic A. Bizri
*Linden P. Blue
Philip M. Breedlove
Myron Brilliant
*Esther Brimmer
R. Nicholas Burns
*Richard R. Burt
Michael Calvey
Teresa Carlson
James E. Cartwright
John E. Chapoton
Ahmed Charai
Melanie Chen
Michael Chertoff
*George Chopivsky
Wesley K. Clark
*Helima Croft
Ralph D. Crosby, Jr.
*Ankit N. Desai
Dario Deste
*Paula J. Dobriansky
Joseph F. Dunford, Jr.
Thomas J. Egan, Jr.
Stuart E. Eizenstat
Thomas R. Eldridge
*Alan H. Fleischmann
Jendayi E. Frazer
Courtney Geduldig
Robert S. Gelbard
Thomas H. Glocer
John B. Goodman
*Sherri W. Goodman
Murathan Günal
Amir A. Handjani
Katie Harbath
Frank Haun
Michael V. Hayden
Amos Hochstein
*Karl V. Hopkins
Andrew Hove
Mary L. Howell
Ian Ihnatowycz
Wolfgang F. Ischinger
Deborah Lee James
Joia M. Johnson
*Maria Pica Karp
Andre Kelleners
Astri Kimball Van Dyke
Henry A. Kissinger
*C. Jeffrey Knittel
Franklin D. Kramer
Laura Lane
Jan M. Lodal
Douglas Lute
Jane Holl Lute
William J. Lynn
Mark Machin
Mian M. Mansha
Marco Margheri
Chris Marlin
William Marron
Neil Masterson
Gerardo Mato
Timothy McBride
Erin McGrain
John M. McHugh
H.R. McMaster
Eric D.K. Melby
*Judith A. Miller
Dariusz Mioduski
*Michael J. Morell
*Richard Morningstar
Virginia A. Mulberger
Mary Claire Murphy
Edward J. Newberry
Thomas R. Nides
Franco Nuschese
Joseph S. Nye
Ahmet M. Ören
Sally A. Painter
Ana I. Palacio
*Kostas Pantazopoulos
Alan Pellegrini
David H. Petraeus
W. DeVier Pierson
Lisa Pollina
Daniel B. Poneman
*Dina H. Powell McCormick
Robert Rangel
Thomas J. Ridge
Lawrence Di Rita
Michael J. Rogers
Charles O. Rossotti
Harry Sachinis
C. Michael Scaparrotti
Rajiv Shah
Wendy Sherman
Kris Singh
Walter Slocombe
Christopher Smith
James G. Stavridis
Michael S. Steele
Richard J.A. Steele
Mary Streett
*Frances M. Townsend
Clyde C. Tuggle
Melanne Verveer
Charles F. Wald
Michael F. Walsh
Gine Wang-Reese
Ronald Weiser
Olin Wethington
Maciej Witucki
Neal S. Wolin
*Jenny Wood
Guang Yang
Mary C. Yates
Dov S. Zakheim

HONORARY DIRECTORS
James A. Baker, III
Ashton B. Carter
Robert M. Gates
James N. Mattis
Michael G. Mullen
Leon E. Panetta
William J. Perry
Colin L. Powell
Condoleezza Rice
George P. Shultz
Horst Teltschik
John W. Warner
William H. Webster

**Executive Committee Members*

List as of December 15, 2020

The Atlantic Council is a nonpartisan organization that promotes constructive US leadership and engagement in international affairs based on the central role of the Atlantic community in meeting today's global challenges.

Atlantic Council

1030 15th Street, NW, 12th Floor,
Washington, DC 20005

(202) 463-7226, www.AtlanticCouncil.org