

# Transatlantic Trade and Investment Relationship

## Huge Market Represents Many Opportunities

### Summary

#### Background

In the past, the European Union (EU) consisted of 28 countries: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, the Mediterranean Island of Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

On June 23, 2015, the United Kingdom voted to leave the European Union. For the UK to definitively leave the EU, it must invoke an agreement under Article 50 of the Lisbon Treaty and may need Parliament's approval, which will mean some time for the two sides to agree on the terms of the split.

The EU presidency rotates with each member country taking turns for six months at a time as chair of EU meetings and representing the EU at international events.

#### Current

Europe and the United States have been negotiating trade talks for a potential Transatlantic Trade and Investment Partnership (TTIP) to further the largest regional trading and investment relationship in the world.

In October 2015, the chief trade negotiators from the European Union and the United States met in New York City for the 15th round of TTIP negotiations. During these meetings, the negotiators made significant progress on the agreement, most notably regarding the chapter on technical barriers to trade.

Trade negotiators in both the European Union and the United States now have agreed that following the November 2016 U.S. election, TTIP negotiations will not be finalized in the near future.

#### Impact

The trans-Atlantic economic partnership is a key driver of global economic growth, trade and prosperity, and represents the largest, most integrated and longest-standing regional economic relationship in the world. The many reasons to support this relationship come from an economic perspective, a geopolitical perspective, a company benefit perspective, as well as regulatory cooperation, and technological innovation perspectives.

Together, the European Union and the United States are responsible for more than 11% of the world's population, nearly half of global gross domestic product (GDP), a third of global merchandise trade, and 40% of world trade in services. The trans-Atlantic relationship defines the shape of the global economy as a whole; either the European Union or the United States also is the largest trade and investment partner for almost all other countries.

According to the World Bank, the EU market represents 509.7 million people, and has a total GDP of \$16.23 trillion. The United States has 321.4 million people and a GDP of \$17.95 trillion.

Total bilateral goods trade between the European Union and United States was \$698.7 billion in 2015, with the United States exporting \$272 billion worth of goods to EU member nations.

California exports to the European Union in 2015 totaled \$29.2 billion. California is the top exporting state to Europe, with computers, electronic products and chemical manufactures as the state's leading export sectors to the region. EU countries purchase roughly 17.6% of all California exports. For California companies, the single market presents a stable market with huge opportunity.

Tariffs on goods traded between the U.S. and the EU average less than 3%, but even a small increase in trade could have major economic benefits. U.S. trade with Europe is much larger than with China. Although there are numerous issues such as agricultural subsidies, privacy, aircraft subsidies, obtaining agreements on issues such as uniform car safety testing could be a huge benefit.

EU-U.S. commercial links are unrivaled. Total U.S. annual investment in the EU is higher than in all of Asia, while EU investment in the U.S. far outstrips EU investment in India and China combined. According to a 2016 study by the World Trade Institute and the AmCham EU, the EU-U.S. relationship supports a combined 15 million jobs and more than \$4.8 trillion in investment, and represents over 40% of global GDP. According to the U.S. Trade Representative, the United States and the European Union are the world's largest sources and destinations for foreign investment. Trans-Atlantic investment benefits companies and workers

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### Anticipated Action

Although Europe and the United States are not set to continue negotiations in 2017 to deepen the world's largest trading and investment relationship with focus on trade and investment initiatives, it is hoped that in time the following issues will be discussed:

- eliminating tariffs on trans-Atlantic trade in goods;
- establishing compatible regulatory regimes in key sectors to address regulatory divergences that unnecessarily restrict trade;
- a bilateral investment agreement;
- liberalizing cross-border trade in services; and
- bilateral expansion of government procurement commitments.

### Possible U.S.-UK Agreement

In the interim, it may be that a U.S.-UK Free Trade Agreement (FTA) can be negotiated between the two new administrations. The UK must first exit from the EU before it can negotiate new agreements. However, a U.S.-UK FTA should be an easier negotiation as there would not be many of the controversial agricultural issues that would be part of a broader U.S.-EU FTA.

Two-way trade between the United States and the United Kingdom was \$114 billion in 2015 and the UK was the fifth largest importer of U.S. goods with a total value of \$56.3 billion. (U.S. Department of Commerce)

The United Kingdom is California's 10th largest export destination, with more than \$5 billion in exports. Computer and electronic products accounted for approximately 26.5% of exports—more than \$1.3 billion. Transportation equipment brought in \$667 million (13%), while both chemicals and nonelectrical machinery each accounted for approximately 8.5% of the total, with more than \$436 million in exports each.

In 2015, imports from the United Kingdom to California were approximately \$4.5 billion, with the top categories being transportation equipment and computers.

According to the U.S. Department of Commerce, the U.S.-UK investment relationship is the largest in the world, valued at greater than \$1 trillion and creating over 2 million jobs, about 1 million in each country.

### CalChamber Position

The California Chamber of Commerce, in keeping with long-standing policy, enthusiastically supports free trade worldwide, expansion of international trade and investment, fair and equitable market access for California products abroad and elimination of disincentives that impede the international competitiveness of California business. New multilateral, sectoral, regional and bilateral trade agreements ensure that the United States may continue to gain access to world markets, resulting in an improved economy and additional employment of Americans.

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