Trans-Atlantic Trade and Investment Relationship

Huge Market Represents Many Opportunities

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, 2016, the United Kingdom (UK) voted to leave the European Union. The UK received Parliament's approval in the middle of March 2017 and by the end of the month had triggered Article 50 of the Lisbon Treaty, which began the two-year countdown to the UK formally leaving the EU, with a transition period to follow. The EU exit negotiations began in June 2017 and will continue into 2018.

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 had 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. With the election of President Donald J. Trump, negotiations were put on hold, although U.S. Secretary of Commerce Wilbur Ross has sent the message that the United States may still be open for discussions.

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, geopolitical and company benefit perspective, as well as a regulatory cooperation and technological innovation perspective.

Together, the European Union and the United States are responsible for more than 14% 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 511.49 million people and has a total GDP of $16.48 trillion. The United States has 323.1 million people and a GDP of $18.62 trillion.

Total bilateral goods trade between the European Union and United States was $685.9 billion in 2016, with the United States exporting $269.6 billion worth of goods to EU member nations.

California exports to the European Union in 2016 totaled $29.7 billion. California is the top exporting state to Europe, with computers, electronic products, chemicals, and transportation equipment as the state's leading export sectors to the region. EU countries purchase roughly 18% 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 and 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, trillions in investment, and represents more than 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 by creating high-paying jobs, boosting exports, and spurring innovation in both the United States and the European Union.

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Anticipated Action

It is expected that negotiations between the UK and EU will conclude by fall 2018 when European Parliament will then vote on the agreement, with the UK officially leaving the EU in early 2019.

Although Europe and the United States are not set to continue negotiations in 2018 to deepen the world's largest trading and investment relationship with a 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 $109.6 billion in 2016, and the UK was the fifth largest importer of U.S. goods with a total value of $55.4 billion, according to the U.S. Department of Commerce.

The United Kingdom is California's ninth largest export destination, with more than $5.4 billion in exports. Computer and electronic products accounted for approximately 25.8% of exports—more than $1.4 billion. Transportation equipment brought in $771 million (14.2%), while chemicals accounted for $484 million (8.9%), and used or secondhand merchandise accounted for $402 million (7.4%).

In 2016, imports from the United Kingdom to California were approximately $5.5 billion, with the top categories being transportation equipment, and computer and electronic products.

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 more than 2 million jobs, about 1 million in each country.

In November 2017, U.S. Secretary of Commerce Ross indicated he is optimistic about a U.S.-UK FTA after the UK withdraws from the EU. In the interim, there are working groups established to keep discussions going.

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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