



Transatlantic Trade in Turbulent Times

Residence Palace, Brussels, 19 July 2018

Speech by European Commissioner for Trade Cecilia Malmström

German Marshall Fund

Ladies and gentlemen,

Thank you for joining me here today.

I would like to thank our hosts, the German Marshall Fund. You could not find more appropriate hosts for a discussion such as this one. The GMF was founded as a memorial to Marshall Plan assistance. It stands as a testament to the friendship between our continents the generosity of US foreign policy and the pivotal relationship at the centre of Western success in the Cold War.

This is important. Not just as a memorial to our friendship, but also as a reminder of what the world looked like not so long ago. Many have already forgotten. Little by little, perspectives have changed. Stories have been misremembered.

The danger of memories is that they do not die suddenly – they fade, and they are distorted. It's in all of our interests to constantly refresh them.

HISTORY OF THE GLOBAL ORDER

Modern, liberal Europe was only possible with the help of the United States. This was once widely known, but the generation who built the world as we know it today are dying out. Building a peaceful, democratic Europe was the purpose behind the Marshall Plan. It was part of a vision. A part of a global architecture which was meant to establish freedom and democracy at the heart of the global order. It stood against the very real threats of totalitarianism and anarchy. The generation who built this order had seen where these paths lead – straight down into the trenches.

They did not want to go back.

Although not without faults, their plan was successful. It was a victory of hope over experience on a continent ravaged by war for centuries.

The vision of the United States at the time did not end at a strong Europe – it was global. While the North Atlantic Treaty Organisation, *NATO*, was set up to safeguard the security of the West, the *United Nations* aimed to foster cooperation and relations between countries. The *International Monetary Fund* sought financial and monetary stability, and the *GATT*, and later the World Trade Organisation, was established to create a stable global environment for open trade. This approach was built on two values – one idealistic, and the other realistic.

First, that as human beings we have common universal values, like freedom, democracy, open trade, and a rules-based world order. Second, that in global politics – power speaks.

So this grand American design saw Europe as the second half of the liberal world order – and that design worked. Western Europe stood as a bulwark against Communism.

The creation of the European Community was an important way to achieve peace and prosperity after two devastating World Wars. After 1991, it anchored democracy as the obvious choice for those emerging from behind the Iron Curtain.

Time and again on the international stage—Europe and the United States stood together. Our alliance was, and still is, the envy of the world.

But now, the world is changing. The world is increasingly dominated by new powers and emerging economies. Our alliance is increasingly tested. This year is the 70th anniversary of the launch of the Marshall Plan. So like I said, it is time that we refresh our memories.

We must recall that the global order as we know it simply cannot be taken for granted. And we must approach the challenges of the 21st century with the same level of ambition as Harry Truman and George Marshall did.

Together, the US and the EU are powerful enough to sustain the liberal world order, along with our partners. Dividing at this time will only serve to weaken both of us. On the contrary, we need to unite.

Trade would be the obvious place to start. It is one of our fundamental economic freedoms, and perhaps the very the cornerstone of relationships between countries. It spreads wealth and prosperity, and builds bonds between states. Nowhere is this more apparent than in the transatlantic relationship.

THE TRANSATLANTIC RELATIONSHIP

For decades, the transatlantic relationship has been a central artery of the world economy. It is the largest and most significant economic relationship in the world. We trade one trillion US dollars' worth of goods and services each year.

The EU is by far the largest investor in the US – we account for 72% of all inward Foreign Direct Investment. But at the end of the day, the figures in themselves are not important – what is important the impact on people.

A full 15 million jobs are supported by the transatlantic economy. Let's reflect on that for a moment – because that's not just an abstract number. That's 15 million individuals going to work. That's 15 million people supporting themselves and their families, all thanks to transatlantic trade.

It goes wider than that, still. What matters in global trade, matters to local economies. And what matters in transatlantic trade, matters around the world. The EU-US relationship is essential to the stability of trade flows. We are an example of what can be achieved when we work side by side, and together, we can guarantee a future for the multilateral trading system.

Recently, this stability between us has been called into question. There has been tough rhetoric linking trade and security – a link that will only serve to make us *both* poorer and weaker.

There has been talk of "trade wars" between countries. But an important truth of trade is that ultimately countries do not trade – companies and people do. It's as simple as this: Countries either create a stable environment for trade, or they do not. And either way, it is the general public, the citizens, who will feel the impact, and the pain of any conflict.

The world is interconnected in an unprecedented way – and our two continents in particular. A trade balance is not like a bank balance. Wherever supply chains run, they bring wealth and jobs. A car can be bought in Seattle, assembled in Detroit, having been designed by a German, built with a Mexican chassis, and Canadian engine parts. This is how trade is a win-win.

Trying to undo the links between us would hurt companies, consumers and the communities built around these industries. It would do untold damage to our economies. It would also damage friendships and create tensions.

And it would do all that precisely at a time when we should be working together on other issues – such as pressuring China on its unfair trading practices, for instance when it comes to global overcapacity on steel, the operation of state-controlled companies, or forced technology transfers.

RECENT US ACTIONS

During the past decades, we have seen a number of global challenges arise in the area of trade – unfair competition, trade distortions, failures in the multilateral system.

So it is understandable that the US feels the need for a decisive response. But we are concerned about the form that response has taken:

- Blocking appointments necessary for the dispute settlement function of the World Trade Organization.
- Imposing global trade-restrictive measures on steel and aluminium, and trying to justify them on national security grounds
- Taking unilateral trade measures against China
- and using increasingly aggressive rhetoric at allies.

These measures are *disruptive* to alliances, when we should be coordinating. They work *against* the world order, that we should be consolidating. They *undermine* decades of US foreign policy and Western partnership.

The EU does not want to escalate the situation. However, we have had no choice but to respond. We are not prepared to walk away from what we built together, to let the global order fade away like an old memory. So we have taken action in a way that is reasonable, proportionate and in accordance with international rules.

Our response on steel and aluminium has three parts:

First, we have taken out a case in the WTO. Illegal moves under the system need to be challenged through the system. Second, we have taken steps to assert our rights under WTO rules. We must maintain a balance of rights and obligations with the United States. We cannot be put at a disadvantage because of unjustified tariff increases – this is only fair and reasonable.

To do this, we have set a list of products on which to apply balancing tariffs on imports from the United States. But again, we respect WTO rules, so the bulk of these will only apply in three years' time. And by then, we hope that this conflict is over. Third, we need to protect the EU from the spill-over effects of US tariffs. Steel and aluminium redirected from the US could distort the EU market – further undermining EU producers who are already facing higher duties in the US.

To stop this from happening, we are applying safeguards to prevent any excess steel from disrupting our markets. This only goes to show that when you play with the global trading system's principles, it creates an unstable environment.

We regret that we have had to do this, but we have to protect ourselves. A large part of protecting ourselves is enforcing trading rules, because the global rulebook is useless if it is not followed. And to be clear, we enforce the rules *wherever* they are broken. The same day we launched a WTO case against the US, we launched a case against China on forced technology transfers.

So – we want to defuse this situation as soon as possible. We need to deescalate before this blows up in our faces – doing harm to the transatlantic relationship, our economies and the global order. George Marshall once said, "The only way to win a war is to prevent it." The very same principle applies to trade wars – there will be no winners.

ILLEGAL MEASURES

We have been engaging deeply with the US to find a solution. I have almost lost count of my many discussions with the US Secretary of Commerce, Wilbur Ross. I tried to persuade him that Europe is not the source of American problems in steel and aluminium. Unfortunately, this was not successful. Now, I am seriously concerned about the new US investigation on cars, also under Section 232, pointing to national security. Steel and aluminium measures turned rhetoric into reality, but doing the same on cars would create a grim new reality indeed.

At least on steel and aluminium, the world is undeniably facing challenges as a result of global over-capacity – the root cause of which is China.

But similar moves on cars would be disastrous. To start with, we are talking about much higher amounts of trade affected. EU exports of steel and aluminium subject to extra duties are 6.4 billion euros – so a lot of money. But EU car and car part exports to the US are worth more than 50 billion euros, every year.

Not only this, but let's also remember that the US auto sector is *healthy*. Their exports have been rising consistently over the last decade, and so has foreign investment in US car manufacturing – including from EU companies. In fact, many EU companies are using the United States as a platform for exporting to other countries – even back to Europe! For instance, the BMW X5 model is only manufactured in one place in the entire world, and that's South Carolina.

Let's also keep in mind that US car producers did not ask for this.

Neither did the unions, the car dealers, the US Chamber of Commerce or the Republican Party. Why? Because the US car industry is closely integrated into global supply chains – and not just in North America. Again, ripping apart those supply chains would only result in less production, and less investment, and fewer jobs in the US.

So tariff measures on cars are neither wanted nor warranted. At best, they are a solution in search of a problem. At worst, they are an illegal move to gain leverage in trade negotiations.

And to be clear, simply looking at the metric of trade imbalances doesn't give an accurate picture of the transatlantic relationship, at all.

Having a trade gap cannot be seen as money that would be “lost” to other countries. The trade balance has more to do with things like the savings of citizens, the value of one's currency, and consumer patterns.

For instance, one moment in time when the trade deficit of the United States was shrinking quickly was during the great recession of 2008, because the purchasing power of American consumers was down. But that should not make us yearn back to how our economies looked in 2008.

The bottom line is that the US makes more money doing business with the EU than with anyone else.

We're the top destination for American exports. We buy hundreds of billions worth of American goods and services every year. In transatlantic trade in services, the United States has a surplus.

Next week, President of the European Commission Jean-Claude Juncker and I will travel to Washington D.C. We will do so in the spirit of the longstanding friendship between the US and Europe.

We want to find solutions to de-escalate the present situation and prevent it from worsening. We hope we can find ways of working together again to advance a positive, mutually beneficial trade agenda.

In short – we want to create additional opportunities for trade and investment. This would benefit both sides of the Atlantic. During the quick visit in DC, I will also meet key senators and congressmen and discuss the issue with them, as well as business representatives.

The message is: The EU is a committed global trader – and as such, we are open to ideas about opening trade. We are prepared to think outside of the box and find solutions that suit us both. Let's approach this like the allies and partners that we are.

ROOT CAUSES

Having said this, let's also acknowledge that there are problems in the international trading system. That much we can agree on. However, US measures on steel and aluminium will not solve overcapacity in China. The same goes for the use of the so-called Section 301 – the measures the US has taken against China on forced technology transfers. Trying to force the hand of China with illegal actions will not work, and the US might end up breaking the multilateral system.

Our view is that another approach is needed. We need to come together to reform and strengthen the WTO.

KEEPING THE WTO RELEVANT

Our strategy aims to modernise the WTO in three ways:

- reviving the dispute settlement mechanism, which has served us well, and which has served the US well
- updating the rules to face 21st century challenges
- and improving the day-to-day work of the organisation.

If we do this, we can deal with emerging challenges in rules-based trade. At the core, it will be about keeping the system relevant and effective. Firstly, let me explain how we plan to keep the system relevant.

The world wrote a rulebook in the WTO over twenty years ago. Again, it has served all of us well. It still does. But even as we use it, we must update it. And in recent years we have seen new challenges arise – challenges that the rules were not equipped to deal with. The first step towards solving this is opening up negotiations on new topics.

Topics like:

- Massive state subsidies to industry
- Forced Technology transfer
- Barriers to access for investment

These are areas where we need new rules. The system was set up to deal with open and transparent traders. We cannot let countries take advantage of that. We need to fill in the gaps. And we need to do so while we continue work on traditional issues too – stopping subsidies to illegal fisheries, for example, where WTO Ministers were unable to take any sort of decision at the latest meeting in December.

Global trade does not stay still – it is constantly changing. If we want to avoid finding ourselves at a point like this again, the WTO will need to be able to adapt to these changes. That is why we need more flexibility in negotiations.

The way negotiations in the WTO work at the moment is flawed. Time and again, we have seen progress held back by a small number of countries that pursue narrow, selfish interests. And as the WTO functions on consensus, we cannot move. This approach has now shown its limits. Members should be free to move forward at different speeds – to integrate and meet criteria at different times. Exploring this option would allow us to make progress in key areas.

This is not a new idea or a bold experiment. It is a tried and tested method that has worked for us in the past. We applied it also after our ministerial meeting in Buenos Aires last year. Groups of interested countries have made good progress on:

- e-commerce
- domestic regulation in services
- investment facilitation

In these fields, we have large groups of countries who wish to move forward. We want this approach to be integrated into the WTO system. It would make us more adaptable, while applying pressure on more difficult members.

Gathering in groups has been a path to progress in trade for some time. Recently, we enhanced our trilateral cooperation with Japan and the US. Together, we seek to tackle systemic problems in the global trading system. It gives us a forum to discuss ways to improve the WTO rulebook. We hope that it will have other effects too – like showing the US that their partners are serious about reform. This way we hope we can build their confidence in the multilateral system again. But indeed, an up to date rulebook is half of the work. We also need to make sure that the rulebook is followed.

KEEPING THE WTO EFFECTIVE

If we want to ensure people follow the rules, we also need to make sure the WTO is **effective**. Without enforcement, the rules are pointless.

The first step in order to do this is to resolve the crisis in the Appellate body. The dispute settlement mechanism of the WTO is vital. The US needs to stop blocking the appointment of judges. The Appellate body is not perfect, and we are open to reforming its work. If we truly want to tackle all distortions to the trading system, we need the dispute settlement mechanism to bring order to the global trading environment.

We also need improvements in the regular work of the WTO – in the committees and the day-to-day functioning. There need to be real rewards for complying with the rules, and there need to be real penalties for those defying them. The organisation needs to be more transparent and reliable too. It will not be easy, but we believe that the global order is worth saving. It is the best way to safeguard our joint long-term interests in global trade.

Because a strong, rules-based approach:

- stands against protectionism,
- ensures a predictable environment for all businesses,
- and creates prosperity by opening up markets around the world.

LONG TERM INTERESTS

Luckily, the EU is not alone in putting our faith in open global trade. Just look at our recent negotiation agenda. We have closed trade deals with Canada – which is in place – and Mexico. With Japan, signed this week, where we hope to have the agreement in effect soon. Vietnam and Singapore are also concluded. We continue negotiations with Mercosur – I'm heading back into those negotiations right after this – and with Chile and others, while opening talks with new partners like Australia and New Zealand. With New Zealand, the first round is ongoing this week.

The list goes on. These are more than economic partnerships. They are strategic alliances – a circle of friends who share our values, who believe in the benefits of trade, and who believe in multilateralism.

CONCLUSION

The international trading system is facing its deepest crisis since the end of the Second World War. The roots of this crisis are deep and complex – and there are no quick fixes. But the EU's response is clear. At home, we need to make our economy and society more resilient. It needs to be strong enough to meet the challenges of globalisation, by us investing in skills for changing work. Moving up value chains through research and innovation. Making sure our societies are socially inclusive and business friendly.

Abroad, we need to tackle the causes of international trade tensions. Doing away with the WTO would not solve anything – in fact it would only increase confrontation.

We would return to a time of tit-for-tat tariffs, and trade governed by politics, not by market. We have already had a taste of this, and it does not taste good.

We firmly believe that our reform plan can transform multilateral trade. By modernising the WTO, by keeping it relevant and effective, we can get global rules-based trade back on track.

The Marshall Fund shaped the 20th century by firmly establishing liberal democracy as the global order. The US achieved this with Europe as its counterpart across the water. They further shaped this order with alliances and rule-setting – through NATO, the UN, the IMF and the WTO.

Now, we find ourselves at a crossroads for open global trade. It is possible that the transatlantic relationship will once again shape the global order for years to come. It is my hope that the US will join us in this investment – in creating rules for the good of the global community.

This is the only way that we can guarantee stability in the 21st century, and return order to open global trade.

Thank you.