TRANS-ATLANTIC BUSINESS COUNCIL

Via Electronic Submission

May 10, 2017

United States Secretary of Commerce
United States Trade Representative

RE: Comments Regarding Causes of Significant Trade Deficits for 2016 with the European Union

The Trans-Atlantic Business Council (TABC) is a cross-sectoral business association representing European and American companies on international trade and investment issues. TABC provides the platform for development of common public policy positions in areas such as trade negotiations, manufacturing, energy, ICT, and innovation, and serves as the interlocutor between government officials, legislators, the business community, and the broader public on those policy recommendations.

Executive Order 13786 of March 31, 2017, instructs your agencies to prepare an Omnibus Report on Significant Trade Deficits which will provide "comprehensive information regarding unfair trade practices and the causes of United States trade deficits." The Federal Register notice of April 17, 2017, soliciting comments to assist preparation of this report specifically lists particular trading partners of interest, including the European Union (EU). This exercise is but the latest iteration of U.S. government studies on the causes, impacts, and possible responses to trade deficits. We recommend that your teams review the November 14, 2000 report on "The U.S. Trade Deficit: Causes, Consequences and Recommendations for Action" prepared by the U.S. Trade Deficit Commission (http://govinfo.library.unt.edu/tdrc/reports/finalrept-contents.html). Chapter 2 within that congressionally mandated (P.L. 105-277) report (http://govinfo.library.unt.edu/tdrc/reports/tdrc_ch2.pdf) provides a summary of the causes of trade deficits as found by both the Republican Commissioners and the Democratic Commissioners. In general, we believe the causes found by that study remain valid today and thus require no further comment.

The Federal Register notice states that, *inter alia*, the Omnibus Report is to assess a host of trade barriers (Section A (a) "Topics in Which Commerce and USTR Seek Information") that might be major causes of the trade deficit. To the extent that any of the barriers or practices listed in that section are imposed by or implemented within the EU, they have already been identified in detail by the comprehensive discovery work and analysis performed by both of your agencies during the conduct of the negotiations in pursuit of a Transatlantic Trade and Investment Partnership (TTIP) agreement. Again, TABC has no further elaboration to add to that existing database.

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We would, however, like to emphasize one point of mutual importance to both the U.S. and the EU. It is important to recognize that both the United States and the European Union share a commitment to protecting intellectual property through strong intellectual property laws. In particular, both the U.S. and the EU provide meaningful protection for patents and trade secrets and appropriate remedial regimes for the misappropriation of these forms of intellectual property. Whatever competitive edge companies within the EU may enjoy is highly unlikely to be attributable to the misappropriations of intellectual property. Indeed, the EU has been a mechanism for improving the protections afforded for patents and trade secrets, especially as more countries without traditions of protecting intellectual property have become EU Member States. We believe that the interests of the U.S. and the EU in protecting the patents and trade secrets of its businesses are aligned, and that the two should work jointly to promote stronger intellectual property laws among other trading partners.

The U.S. and EU are each other's largest trading partners and jointly accounted for 27% of global exports and 31% of global imports in 2015. More importantly as noted in the study prepared by Dan Hamilton and Joseph Quinlan of the Center for Transatlantic Relations at the Johns Hopkins University School of Advanced International Studies—*The Transatlantic Economy 2017: An Annual Survey of Jobs, Trade and Investment between the United States and Europe*—together the U.S. and EU accounted for 66% of the outward stock and 57% of the inward stock of global FDI. This report is well-known by career trade staff in your agencies and contains numerous other findings, such as those below, that should be considered while preparing the Omnibus Report.

- Foreign investment and affiliate sales drive transatlantic trade. 60% of U.S. imports from the EU consisted of intra-firm trade in 2014 - much higher than U.S. intra-firm imports from Pacific Rim countries (43%) and South/Central America (42%), and well above the global average (51%). Percentages are notably high for Ireland (91%) and Germany (70%).

- U.S. foreign affiliate sales in Europe in 2015 topped $3.1 trillion, greater than total U.S. exports to the world of $2.3 trillion and half of total U.S. foreign affiliate sales globally.

- Majority-owned European affiliate sales in the United States ($2.4 trillion) in 2015 were more than triple U.S. imports from Europe.

- In 2016 Europe accounted for 72% of global FDI inflows into the U.S. of $385 billion.

- Europe accounted for roughly 70% of the $3.1 trillion invested in the United States in 2015 on a historic cost basis. The bulk of the capital was sunk by British firms (with total UK stock amounting to $484 billion), Luxembourg ($323 billion), the Netherlands ($283 billion), Switzerland ($258 billion), Germany ($255 billion), and France ($234 billion).

- European companies operating in the U.S. accounted for nearly two-thirds of the $869 billion contributed by all foreign firms to U.S. aggregate production in 2015.

- Affiliate sales, not trade, are the primary means by which European firms deliver goods and services to U.S. consumers. In 2015 European affiliate sales in the U.S. ($2.4 trillion) were more than triple U.S. imports from Europe. Affiliate sales rose roughly 4% in 2015.

- 45 of 50 U.S. states export more to Europe than to China, in many cases by a wide margin.

- U.S. services exports to Europe reached a record $274 billion in 2015, up more than one quarter from 2009. The U.S. had a $69 billion trade surplus in services with Europe in 2015, compared with its $174 billion trade deficit in goods with Europe.

- European companies in the U.S. employ millions of American workers and are the largest source of on-shored jobs in America. European firms employed roughly two-thirds of all U.S. workers on the payrolls of majority-owned foreign affiliates in 2014. In 2014, this was roughly 4.1 million U.S. workers.

I hope these observations will provide context and greater understanding to your agencies during their consideration of the trade deficit with the EU.

Respectfully submitted,

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