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A New Transatlantic Initiative? U.S.-EU Economic Relations in the Mid-1990s

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SUMMARY

A number of proposals for a new transatlantic trade and investment initiative between the United States and the European Union (EU) have been floated in recent months. Closer ties, some believe, would lead to a better transatlantic relationship. The United States Government and the European Commission are conducting independent studies to assess the feasibility of establishing a free trade area or a "transatlantic economic space." Both sides may agree, at a December 1995 summit, to intensify the U.S.-EU dialogue. Proponents of a new transatlantic initiative argue that the United States and the European Union run a risk of drifting apart in the absence of the unifying threat posed by the Soviet Union during the Cold War. Countering the view that there is a "special relationship" between the United States and the European Union are those, like MIT economics professor Lester Thurow, who argue that in the post-Cold War world, the United States and European Union are political and economic rivals engaged in a battle "to determine who owns the twenty-first century."

The United States and the European Union have increasingly used free trade agreements (FTAs) to expand their presence in foreign markets and to further trade liberalization. Some analysts, however, question whether a U.S.-EU FTA could meet Secretary Christopher's conditions that any free trade agreement would have to "advance our overriding objective of global trade liberalization, be consistent with an effective World Trade Organization (WTO), and not disadvantage less developed countries." The European Commission has also proposed that the EU and the United States undertake a feasibility study in 1996 to examine the advantages and disadvantages of a transatlantic FTA, including whether to make it open to third parties.

Numerous European leaders have made calls for a new transatlantic treaty and/or a free trade agreement. U.S. officials have been much more circumspect and reserved with respect to new agreements with Europe. The Clinton Administration, which has vigorously promoted exports and internationalization of the American economy, has not embraced an FTA with Europe in the same way that it endorsed plans to negotiate FTAs with Asia and Latin America. Within the Administration, Commerce Department officials have been the most outspoken advocates of a new relationship with the European Union.

The options that have received attention to date range from a transatlantic treaty, to a free trade agreement between the European Union and the United States, to a less ambitious transatlantic "economic space", to a revived Transatlantic Declaration, to a continuation of current policies that encourage negotiations and cooperation across a broad range of trade and non-trade areas. These initiatives include mutual recognition agreements (MRAs); investment regimes; coordination of competition policies; and regulatory cooperation. A more far-reaching initiative (a treaty or FTA, for example) would undoubtedly include issues considered too contentious to be considered within the context of a transatlantic economic space.

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A NEW TRANSATLANTIC INITIATIVE? U.S.-EU ECONOMIC RELATIONS IN THE MID-1990s

Policymakers on both sides of the Atlantic have called for a new transatlantic initiative in an attempt to strengthen a relationship that some believe has become badly frayed in battles over present and future security arrangements, including the expansion of the North Atlantic Treaty Organization (NATO) and disagreements about how to proceed in former Yugoslavia. The issue was initially raised by European political and military leaders who perceived a waning U.S. commitment to Europe as a result of the Cold War's end. Additionally, some Europeans appear to have the perception that the Clinton Administration is tilting toward the Pacific and that the 104th Congress is isolationist in outlook.¹

A decision by the United States and the EU to pursue a free trade agreement (FTA), or perhaps some other new framework for improving the trade and economic relationship might appear to some to be generally consistent with other parallel attempts to create regional trade blocs. But is a regional bloc linking Europe and the United States worth the effort? What form, if any, should closer economic ties take? Should the United States enter into negotiations with the European Union to establish a free trade area; a single market linking the U.S. and European economies; a less ambitious "economic space" that includes some sectors but not others, such as agriculture or audiovisual; or a reinvigorated Transatlantic Declaration?² Should such an

¹ Barber, Lionel and Guy de Jonquieres. "U.S. and Europe Eye Each Other Up." *Financial Times*. May 12, 1995; Greenhouse, Steven. "Christopher Backs Free Trade With Europe." *New York Times*. June 3, 1995. A recent report by the European Commission states that "negotiations over Chile's access to NAFTA "have been held back by...domestic-policy factors such as the new composition of the US House of Representatives." The Commission does not make clear why it believes the House of Representatives in the 104th Congress to be an impediment to NAFTA negotiations, but this mirrors views on the part of some Europeans that characterize the 104th Congress as isolationist. European Commission. *Communication from the Commission to the Council and the European Parliament on the Strengthening of Relations Between the European Union and Chile*. COM(95) 232 final. Brussels. May 31, 1995. p. 5.

² The Transatlantic Declaration of November 1990 held out the promise of a U.S.-EU partnership, with regular consultations and closer economic cooperation. Historian Desmond Dinan, of George Mason University, recently characterized the Declaration as "long on rhetoric and short on substance." Dinan, Desmond. *An Ever Closer Union? An Introduction to the European Community*. Boulder: Lynn Rienner, 1994. The Carnegie Endowment Study Group on U.S.-EC Relations called the Transatlantic Declaration "a modest beginning in creating the policy infrastructure to enable the United States to work more effectively with the EC and its member

(continued...)

agreement include the United States' NAFTA partners, Canada and Mexico, or should it be limited to the United States? Or should the United States pursue trade liberalization primarily through multilateral organizations, such as the World Trade Organization (WTO) and the Organization for Economic Cooperation and Development (OECD)? In 1995, the agenda for U.S.-EU political and economic relations have increasingly focused on the issue of how best to reinvigorate the transatlantic relationship between the United States and the European Union.

The 104th Congress may consider a number of these questions if the Clinton Administration decides to pursue a formal trade initiative, but such an initiative could probably not be concluded before 1997 at the earliest.

BACKGROUND TO A NEW INITIATIVE

With the end of the Soviet threat and the resulting decrease in the importance of NATO, attention has turned to strengthened economic ties. A new transatlantic initiative has been suggested as a way to further cement relations between the United States and the European Union (EU).³ The Europeans are promoting an initiative that would, for now, exclude most of the trade issues that have proved most troublesome to the U.S.-EU economic relationship. For its part, the Clinton Administration appears willing to downplay some of the most contentious trade issues until the results of the Uruguay Round can be fully digested. In the meantime, the Administration is pursuing the renewal of closer relations, as well as progress in non-trade areas that are important to U.S. business. It remains to be seen whether a new initiative will take the form of a broader set of trade negotiations leading to a trade agreement that will require congressional consideration. There is a broader concern, however, about whether problems in the sphere of security relations could be resolved through a new trade initiative.

Proponents of a new transatlantic initiative argue that the United States and the European Union run a risk of drifting apart in the absence of the

²(...continued)

states." Nelson, Mark N. and G. John Ikenberry. *Atlantic Frontiers: A New Agenda for U.S.-EC Relations*. Washington: Carnegie Endowment for International Peace, 1994. p. 32.

³ See European Commission. *Europe and the US: The Way Forward*. Brussels. July 1995. Several proposals have advanced a broader partnership or cooperative framework. These proposals are examined in U.S. Library of Congress. Congressional Research Service. *European Proposals for a New Atlantic Community*. CRS Report 95-374 S. March 10, 1995. 6 p. and Sloan, Stanley. U.S. Perspectives on NATO's Future. *International Affairs*. Vol. 71, No. 2 (April 1995). Sloan argues that NATO and EU members are headed toward a new consultation forum, or "Transatlantic Cooperation Community," that could take on a variety of issues, including improved economic cooperation. Also see Reinicke, Wolfgang. "Transatlantic Economic Relations in a Changing Global Environment." Unpublished manuscript. June 1995.

unifying threat posed by the Soviet Union during the Cold War.⁴ Countering the view of those who maintain that there is a "special relationship" between the United States and the European Union are those who argue that in the post-Cold War world, the United States and European Union are political and economic rivals engaged in a battle "to determine who owns the twenty-first century."⁵

The strongest supporters of a new transatlantic agreement have been Europeans -- although some Americans have also made the case for closer ties. A reinvigorated political and security relationship usually tops the agenda, and many Europeans see the strong economic relationship as a vehicle for a general strengthening of ties. Some economists agree with this assessment, suggesting that a transatlantic FTA would boost relations. Opponents of an FTA argue that economic and trade relations are already strong and that the underlying rationale for such a free trade agreement is essentially political rather than economic in nature.

THE TRANSATLANTIC INITIATIVE AND REGIONAL INTEGRATION STRATEGIES

A trade initiative that focused attention on furthering the integration of the world's two richest markets may be a positive development, but any agreement on trade and services that did not cover substantially all products (including agriculture) and sectors (e.g., telecommunications or audiovisual services) would be inconsistent with WTO rules on preferential economic agreement. Additionally, the most frequent source of tensions in the U.S.-EU economic relationship would remain untouched. Some observers believe that a better economic relationship will not necessarily provide a fix for the security relationship. And many observers are beginning to recognize that some trade issues are so sensitive for the European Union that an attempt to resolve them could delay progress in other areas of U.S.-EU relations.

⁴ Drozdiak, William, "Trade Zone Plan Intrigues Leaders on Both Sides of the Atlantic," *Washington Post*, May 28, 1995; Kissinger, Henry, "For U.S. Leadership, A Moment Missed," *Washington Post*, May 12, 1995; Tonelson, Alan and Robin Gaster, "Our Interests in Europe," *The Atlantic Monthly*, August 1995; Stokes, Bruce, "How to Set Transatlantic Ball Rolling," *Financial Times*, April 19, 1995. The rapidly growing literature on a new initiative indicates that better economic relations is not the only agenda being pursued. For Bruce Stokes, a senior fellow at the Council on Foreign Relations, the overall goal of a new transatlantic dialogue is "to evoke broad public support for a wider, deeper transatlantic relationship and, specifically, to renew the commitment of the American taxpayer to helping pay for Europe's defense." Stokes, How to Set the Transatlantic Ball Rolling, *Financial Times*, April 19, 1995.

⁵ Thurow, Lester. *Head To Head: The Coming Economic Battle Among Japan, Europe, and America*. New York: Morrow, 1992, p. 25.

The European Commission announced in February 1995 that it would produce a detailed economic study of the implications of a free trade agreement linking the world's two largest economies. The Commission also produced an analysis of free trade areas in March 1995⁶ and issued a draft report with recommendations concerning the U.S.-EU relationship in July 1995.⁷ The report is to be taken up by the European Council in September and will be considered for adoption in Madrid in December 1995. In June 1995, Secretary of State Warren Christopher announced that the United States would conduct its own study of the concept.⁸ In making the announcement, Secretary Christopher was careful to note that any free trade agreement would have to "advance our overriding objective of global trade liberalization, be consistent with an effective WTO, and not disadvantage less developed countries."⁹ The European Commission has also proposed that the EU and the United States undertake a feasibility study in 1996 to examine the advantages and disadvantages of a transatlantic FTA, including whether to make it open to third parties.¹⁰

The United States and the European Union have increasingly used free trade agreements to expand their presence in foreign markets and to further trade liberalization, but some analysts question whether a U.S.-EU FTA could

⁶ European Commission. *Free Trade Areas: An Appraisal*. SEC(95) 322 final. Brussels. March 8, 1995.

The Commission takes the somewhat peculiar position that Article XXIV of the GATT was modified by GATT-94 (more specifically by the "Understanding on the Interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994") to require that substantially all trade between or among members of an FTA must be subject to coverage by the agreement. In fact, Paragraph 8(b) of Article of GATT-47 already required that "substantially all trade" be covered. Because of this perceived change, the Commission now appears to be of the opinion that it cannot conclude a free trade agreement that excludes a major component of bilateral trade (p. 4). Thus, it proposes an "economic area," that is practically indistinguishable from a free trade area such as the North American Free Trade Agreement (NAFTA), except that the coverage requirement is not met. Some observers might conclude that an economic area of the type proposed could well be WTO-illegal.

⁷ European Commission. *Europe and the United States: The Way Forward*. July, 1995; and European Commission. *The EU-US Relationship: Will It Last?* Speech by the Right Honorable Sir Leon Brittan, QC, Vice-President of the European Commission, to the American Club in Brussels. April 27, 1995.

⁸ U.S. Department of State. *Charting a Transatlantic Agenda for the 21st Century*. Address by Secretary of State Warren Christopher. Madrid, Spain. June 2, 1995.

⁹ *Ibid.*, p. 4.

¹⁰ European Commission. Commission Launches Blueprint to Prepare for Deeper Transatlantic Ties. IP/95/828. July 26, 1995. For a general background discussion of the transatlantic initiative, see U.S. International Trade Commission. *Trans-Atlantic Ties to be Strengthened*, by Kim Frankena. *International Economic Review*. August 1995.

meet Secretary Christopher's conditions.¹¹ The United States is a member of two existing FTAs: NAFTA (the North American Free Trade Agreement) and the U.S.-Israel FTA. In addition, APEC (Asia-Pacific Economic Cooperation) and the FTAA (Free Trade Area of the Americas) represent very long-term projects whose outcome is somewhat uncertain. At present, these proposed FTAs are a long way from reality. The European Union has concluded FTAs with the Baltics, the countries of central and eastern Europe, Israel, Switzerland, Malta, the Faeroe Islands, San Marino, and Andorra. The European Economic Area (EEA) is, in important respects, a free trade area.¹² The EU is negotiating an FTA with the Gulf Cooperation Council, a customs union with Turkey, and partnership agreements with Russia and the Ukraine. The partnership agreements hold out the possibility of an FTA later in the 1990s. EU trade ties also include non-reciprocal trade agreements with the Maghreb¹³ and Mashreq¹⁴ countries, as well as with the seventy African, Caribbean, and Pacific (ACP) countries that are party to the Lomé convention.¹⁵

The EU is also quite active in the Western Hemisphere. The Commission is discussing a framework agreement with the Southern Cone Common Market (MERCOSUR), a customs union made up of Brazil, Argentina, Paraguay, and Uruguay. Bolivia and Chile have announced plans to join MERCOSUR.¹⁶ The EU is also pursuing a partnership agreement with Chile, which would include the progressive and reciprocal liberalization of trade.¹⁷ The European Commission is also discussing a framework agreement for EU-Mexican relations. In a recent report, the Commission sounded a note of urgency when it wrote "if the EU fails to take the appropriate steps, its relations with Mexico run the risk

¹¹ Schott, Jeffrey J. "Reflections on TAFTA." Unpublished manuscript. June 19, 1995. p. 4.

¹² The EEA includes the 15 members of the EU and three of the four members of the European Free Trade Area (EFTA)(Iceland, Liechtenstein, Norway).

¹³ The Maghreb comprises Algeria, Morocco, Tunisia, and Libya.

¹⁴ The Mashreq countries include Egypt, Jordan, Lebanon, and Syria.

¹⁵ For information on the ACP countries or the Lomé Convention, see European Commission. *EU-ACP Cooperation*. Brussels, 1994. 192 p.

¹⁶ European Commission. *The European Community and MERCOSUR: An Enhanced Policy*. Communication from the Commission to the Council and the European Parliament. COM(94) 428 final. Brussels, October 10, 1994.

¹⁷ European Commission. *On the Strengthening of Relations Between the European Union and Chile*. Communication from the Commission to the Council and the European Parliament. COM(95) 232 final. Brussels, May 31, 1995.

of being eroded by the existence of NAFTA, particularly if other countries join up."¹⁸

A NEW TRANSATLANTIC PARTNERSHIP?

In a March 1995 speech, House Speaker Newt Gingrich noted that there is a danger that the United States and Europe

will drift apart unless we have projects large enough to hold us together.... We're not going to stay together out of nostalgia.... And my suggestion in part is that we want to start looking at a free trade zone that includes the U.S. and Europe, negotiated in a tough-minded way...¹⁹

In early May 1995, Undersecretary of Commerce for International Trade Jeffrey Garten said, "We need to invest at least as much time and energy in the development of a new economic architecture as we are doing in the restructuring of NATO."²⁰

What might an enhanced transatlantic partnership look like? So far, discussion is at a very preliminary level and, while a number of options have emerged, the scope of such an agreement has not been defined. Numerous European leaders have made calls for a new transatlantic treaty and/or a free trade agreement. U.S. officials have been much more circumspect and reserved with respect to new agreements with Europe. The Clinton Administration, which has vigorously promoted exports and internationalization of the American economy, has not embraced an FTA with Europe in the same way that it endorsed plans to negotiate FTAs with Asia and Latin America. Within the Administration, Commerce Department officials have been the most outspoken advocates of a new relationship. Secretary of Commerce Ronald Brown recently said, "The Atlantic free-trade zone is something that I favored very early on, and the more we look at it the more we like it."²¹

¹⁸ European Commission. *Towards Closer Relations Between The European Union and Mexico*. Communication from the Commission to the Council and the European Parliament. COM(95) 03 final. Brussels, February 2, 1995, p. 13. At the summit of European Union heads of state in December 1994, the Essen European Council urged the "Council and the Commission (...) to put ideas on the future form of treaty relations with Mexico (...) into concrete form without delay." (Ibid., p. 2).

¹⁹ Gingrich, Newt. "An American Vision for the 21st Century." Keynote address. Mayflower Hotel. March 1, 1995.

²⁰ Ibid.

²¹ Drozdiak, William. "Trade Zone Plan Intrigues Leaders on Both Sides of the Atlantic." *Washington Post*. May 28, 1995.

OPTIONS

The options that have received attention to date range from a transatlantic treaty to a free trade agreement (or, what amounts to the same thing, an economic space) between the European Union and the United States to a revived Transatlantic Declaration to a continuation of current policies that encourage negotiations and cooperation across a broad range of trade and non-trade areas.

Transatlantic Treaty

A transatlantic treaty would be the most ambitious and potentially inclusive of the various options that have been suggested. A treaty could include provisions for a free trade area or, perhaps improbably, even a "single market" that combines the economies of Europe and North America. A treaty, which might govern future U.S.-EU relations, could cover political, military, and economic relations.²² Such a treaty would have to be ratified by the United States Senate, the European Parliament, and the parliaments of the 15 member states of the European Union. Most observers believe that a new transatlantic treaty would probably be difficult to negotiate before the conclusion of the EU's Intergovernmental Conference (IGC) currently scheduled for 1996, in no small part because the European Commission does not have competence to negotiate such a treaty. European monetary union (EMU) and the accession of central and eastern European countries may also cause delays in any treaty negotiations. Additionally, the European Union is a civilian power, and the relationship between the European Union, the Western European Union (WEU), and NATO might need to be redefined if a transatlantic treaty were to be negotiated.²³

Transatlantic Free Trade Agreement (TAFTA)

A transatlantic free trade area lies at the core of many of the proposals currently being floated. Free trade agreements (FTAs) have become a basic part of U.S. and EU strategies for expanding trade relations with one or more trading partners. Many economists believe that FTAs contribute to welfare-enhancing trade liberalization. The trade-creating effects of such agreements are usually believed to outweigh the negative, or trade-diverting, effects.²⁴

²² Sir Leon Brittan, April 27, 1995 speech. Discussion of the substance of such a treaty is beyond the scope of this report.

²³ NATO members, such as Canada and Turkey, may need to be included in any discussions concerning security and NATO.

²⁴ The welfare gains or losses generated by a free trade area are difficult to measure empirically. According to trade theory, welfare gains and losses can be measured by taking the volume of new trade created by the formation of the free trade area (trade creation) and subtracting the volume of trade diverted from low-cost outside suppliers to higher-cost partner-country suppliers (trade diversion).

This is especially true in the case of so-called "natural trade blocs," where partner countries have a high propensity to trade with one another. Some analysts have argued that because of strong trade and economic ties, the United States and the European Union form such a bloc. The conclusion of an FTA would, it is argued, lead to higher levels of inter-regional trade, thus furthering the cause of global trade liberalization. Concerns have been expressed that such a bloc would amount to a "tight little club of the rich,"²⁶ that may lead to increased trade discrimination against non-member countries. But others note that simultaneous negotiations between the United States and European, Asian and Latin American countries for free trade agreements could provide a strong impetus for a new round of global trade talks.²⁶

A Transatlantic Free Trade Agreement that excluded agriculture or other major sectors that have been stumbling blocks to past trade agreements might face substantial opposition in the United States, and consistency with World Trade Organization rules requires that substantially all trade be covered by an FTA. Thus, an FTA that excluded one or more major components of bilateral trade would probably contravene WTO rules. Yet, because sectors such as agriculture are particularly sensitive, prospects for achieving meaningful agreement in the near- to medium-term appear dim. In response to a letter (of April 14, 1995) from French Prime Minister Edouard Balladur, the President of the European Commission, Jacques Santer, assured him that the Commission has proposed free trade areas only "after having acquired the conviction that it was legally and practically possible to make an exception for the particularly sensitive products."²⁷

Concerns about agriculture and sectoral coverage raise the issue of whether such a trade agreement would be beneficial to the United States. Jeffrey J. Schott, an economist at the Institute for International Economics, estimates that

the total elimination of tariffs on bilateral [U.S.-EU] trade (after the full implementation of the Uruguay Round cuts) would increase U.S. exports to the EU by 10.8 percent, but only by 4.1 percent if agricultural commodities are excluded. EU exports to the United

²⁵ *Washington Post*. "A Tight Little Club of the Rich?" June 1, 1995.

²⁶ U.S. Library of Congress. Congressional Research Service. *Regional free trade partners and U.S. interests: what's next?* CRS Report 95-392 F, by Raymond Ahearn. March 13, 1995. 27 p.

²⁷ "Mr. Santer's Position on Monetary Upheavals and Their Effects on the Single Market and on Agriculture - Guidelines on Free Trade Areas with Third Countries," *Europe*. No. 6479. May 12, 1995. p. 7. Mr. Santer went on to note that, with respect to FTAs, the Commission would remain attentive to agriculture: "I can assure you that the agricultural aspects of these negotiations will be the subject of a permanent and attentive examination on the part of the Commission, without prejudice to the permanent influence that Member States have on things through the Council and its specialised committees."

States would increase by 6.3 percent, but if agricultural commodities were excluded the growth slims to 4.4 percent.²⁸

Developing countries are also concerned about possible discrimination that could occur as a side effect of a preferential bilateral agreement. An FTA that continued protection for the agriculture and textile sectors could result in a situation where trade discrimination effects against smaller, poorer third countries predominated over the relatively small income effect.²⁹

A transatlantic free trade area would not automatically or necessarily include either Canada or Mexico. Similarly, the numerous countries that have free trade and association agreements with the European Union would not, by virtue of those agreements, be included in a TAFTA. Finally, an FTA would require congressional approval.

Transatlantic "Economic Space"

A transatlantic "economic space" is a European invention that effectively amounts to a partial FTA. Because it is partial, it fails to meet the WTO requirement that substantially all trade be covered by an agreement. An economic space could potentially include some issues not contained in a traditional FTA (so-called "beyond the border"³⁰ issues such as environment, labor, competition policy, standards, and investment), but the failure to include a sector like agriculture, for instance, might make such an agreement unacceptable to the United States. The European Commission has outlined an approach to U.S.-EU relations that would create a transatlantic "economic space."

The first so-called economic space (the European Economic Area (EEA)) was a free trade agreement between the European Union and all of the EFTA countries except Switzerland. Agricultural goods were not covered by the agreement, although most other goods were. The economic space approach could encompass tariffs or other traditional trade issues, as well as issues that are not trade issues per se but do impinge on trade (e.g., standards, competition policy, and investment policy) and are part of the new WTO agenda. An economic space might be created by eliminating unnecessary regulatory and other obstacles that hamper business. Sir Leon Brittan suggested such an approach in April 1995, noting that it "is an attractive one which could provide

²⁸ Schott, Jeffrey J. Reflections on TAFTA. Unpublished manuscript, June 19, 1995.

²⁹ Ibid., p. 11.

³⁰ Beyond the border issues were included in the North American Free Trade Agreement (NAFTA) but that agreement also closely resembled a traditional FTA in that substantially all sectors were covered.

the single framework which I identified as being necessary to give momentum to the disparate initiatives underway at present."

The single framework mentioned by Brittan is key to understanding the concept of economic space because it is, potentially, a quite flexible approach that could allow the United States and EU to move forward on issues of mutual importance without the formalities (or the required sectoral coverage) of a free trade agreement. Some observers have suggested that a Transatlantic economic area could be patterned on the EEA, but that agreement was actually intended as a transitional arrangement, with non-EU members moving into a membership track. The non-EU EEA members now include only Norway, Liechtenstein, and Iceland.³¹ The EEA extended many of the benefits of the European Union's single market program (EC-92) to EEA members: a free trade agreement (except for agricultural goods) and the free movement of services, capital, and labor. At the same time, however, non-EU members of the EEA agreed to be bound by EU laws (the so-called *acquis communautaire*) as a condition of membership. Many observers believe it highly unlikely that the United States would ever agree to a transatlantic economic space that required the United States to graft EU law onto the U.S. Code as a condition for reaching an agreement. In this sense, the concept of a transatlantic economic space differs in a crucial respect from the European Economic Area on which the EU proposal is modeled.

A so-called economic space might be created through an executive agreement, but any changes to U.S. laws would obviously require congressional approval. That approval could be given under fast track procedures if fast track legislation were approved and if fast track authority were broad enough to encompass a bilateral economic space, or if fast-track procedures were adopted *ad hoc* for the implementation of a particular agreement. Alternatively, if fast track authority were not available, the President could negotiate a transatlantic economic space and submit the agreement to Congress for approval and implementation of an entire package of legislative changes. The agreement could also be submitted to the Senate as a treaty with separate implementing legislation.³²

An economic space could provide a framework for discussing a potentially large number of issues of importance to both sides. But such a framework for discussions could be agreed to without the artifice of an economic space. Some observers conclude that a major drawback to the economic space proposal is that

³¹ Austria, Finland, and Sweden also belonged to the EEA prior to joining the EU in 1996. Switzerland's voters rejected EEA membership in 1993.

³² For an analysis of current issues and proposals, as well as for background on fast track authority, see U.S. Library of Congress. Congressional Research Service. *Fast Track Authority: Negotiating Objectives for Multilateral and Preferential Trade Agreements*. CRS Report 95-904 E, by George D. Holliday. August 14, 1995. 21 p.

it would allow either side to sidestep those issues that are the major source of trade disputes between the United States and the EU.

Status Quo

United States and European Union trade and economic relations are basically sound and both sides could continue to pursue their bilateral and multilateral trade and economic agendas without an FTA. The main advantage of an FTA approach would be that it would put U.S.-EU trade relations on a par with those of Asia (APEC) and Latin America (FTAA), thus reassuring worried Europeans that the United States still values its relationship and close ties with Europe. But Europe is already the strongest economic partner of the United States, with an economic system that closely resembles the U.S. system.

Proponents of the status quo worry that policymakers may attempt to overload a narrowly focused economic initiative with an effort to reestablish a political relationship that has become increasingly complex in the absence of a common external threat. Others believe that a framework for deepening trade and economic ties can be established without the need for either an FTA or a treaty. They are concerned that an FTA would divert attention from trade liberalization within the WTO.

THE SUBSTANCE OF THE TRANSATLANTIC INITIATIVE

Whether the proposed Transatlantic initiative took the form of a treaty, a free trade agreement, or an economic space, certain ongoing economic and trade-related initiatives are likely to be on the agenda. These initiatives include mutual recognition agreements (MRAs), investment regimes; coordination of competition policies; and regulatory cooperation.³³

On May 22, 1995, U.S. Trade Representative Mickey Kantor weighed into the debate with a four-pronged initiative that includes (1) studying remaining barriers in such areas as services, investment, intellectual property, telecommunications, and agriculture; (2) launching an immediate phasedown of barriers in such areas as standards, investment, and financial services; (3) developing a modality for addressing remaining barriers; and (4) launching a Transatlantic Business Dialogue to serve as an early warning mechanism and to recommend a future course for U.S.-EU economic relations.³⁴ Ambassador Kantor's initiative does not necessarily indicate support for an FTA.³⁵

³³ To these four areas could be added other issues, including environment, labor, procurement, subsidies, and dumping, among others.

³⁴ USITC. *Atlantic Ties to be Strengthened*, p. 9.

³⁵ *International Trade Reporter*. U.S. Will 'Study' Plan to Conclude Trans-Atlantic FTA, Christopher Says. June 7, 1995. p. 980.

Mutual Recognition Agreements³⁶

Mutual recognition agreements are an important issue for U.S. companies because such agreements eliminate much of the expense and uncertainty associated with having to ship products to Europe for testing, frequently after rigorous tests have already been completed in the United States. MRAs are negotiated on a product or sector basis and are limited to "regulated products."

United States and European exporters routinely raise the issue of standards (this usually includes standards, testing and certification procedures) as the major non-tariff barrier to bilateral trade. Currently, differences in procedures account for delays and much higher costs in gaining access to a foreign market. Small- and medium-sized exporters bear a disproportionate burden imposed by the requirement that testing and certification be performed at the export's destination (whether the United States or the European Union). The United States and the European Union recognize this concern but, so far, the two sides have been unable to reach agreement. Negotiations have been narrowed at this point to include only mutual recognition of test results -- which is a long way from the mutual recognition of product certifications. Authorities on both sides of the Atlantic expect that eventually U.S. bodies will be able to certify U.S. products for the European market and to issue the relevant marks of conformity. Similarly, it is hoped that European bodies will be allowed to do the same for European products. Prospects for concluding MRAs that cover product approvals in the near term appear to be slight.³⁷

MRA negotiations so far have focused very narrowly on mutual recognition of test results, despite EU concerns that product approval is the key to achieving effective market access. A U.S.-EU mutual recognition agreement would provide for EU recognition of U.S.-produced tests and certificates of product conformity with EU legal requirements, and vice versa. The U.S. Chamber of Commerce has identified standards-related issues and MRAs as the

³⁶ The principle of mutual recognition was first articulated by the European Commission eighteen months after the European Court handed down the important *Cassis de Dijon* decision, which struck down a German law prohibiting the import of alcoholic beverages that failed to meet minimum alcohol content requirements. The principle of mutual recognition holds that "any product imported from another member state must in principle be admitted...if it has been lawfully produced, that is, conforms to rules and processes of manufacture that are customarily and traditionally accepted in the exporting country, and it marketed in the territory of the latter." *Official Journal of the European Communities*. OJ C 256. October 3, 1980. Cited in Dinan, op.cit., 1994. pp. 117, 127. Also, mutual recognition agreements are encouraged in the WTO Agreement on Technical Barriers to Trade at Art. 6.3.

³⁷ National Association of Manufacturers. *American Industry and the New European Union*, by Stephen Cooney. Washington, DC, 1994. pp. 89-92.

most critical component of the single market program for U.S. exporters and has urged that MRA negotiations be concluded as expeditiously as possible.³⁸

Investment Regimes

Completion of a new multilateral agreement on investment (MAI) is a major goal of both the United States and the European Union. In May 1995, trade ministers from the EU, Japan, Canada, and the United States agreed to begin negotiations within the Organisation for Economic Cooperation and Development (OECD) on an investment accord. In a communique, the ministers noted that "such an agreement would provide a comprehensive framework for international investment and would strengthen the international trade system."³⁹ The ministers agreed that non-OECD members would be consulted during the negotiations and that discussions on investment would also take place in the WTO.

The goal of the United States is to negotiate a "state-of-the-art" MAI that would include: the better of national or most-favored-nation (MFN) treatment; freedom from performance requirements; freedom to make any investment-related transfer; and access to binding arbitration of disputes. The United States preferred the OECD for MAI negotiations because it provides a greater opportunity for achieving a liberal investment instrument than the WTO, whose broader membership covers the spectrum when it comes to investment policies.⁴⁰ The prospect that Korea and other countries may join the OECD provides a further incentive for establishing a transparent and liberal investment regime within the OECD. Under the Uruguay Round Agreement, the WTO is required to review WTO investment rules before the year 2000. The United States believes that the MAI will provide a starting point for WTO negotiations.

The EU had initially argued that it would be preferable to negotiate new investment rules in the WTO rather than the OECD because investment problems are most severe in non-OECD countries. Also, the EU has no direct authority over member states' foreign investment policies, although such policies may not be used to hinder trade and competition within the EU. In a recent communication, the European Commission outlined its views on investment and its commitment to achieving multilateral rules that provide rights of entry and of establishment; national treatment for investors and their

³⁸ Chamber of Commerce of the United States of America. Letter from Richard L. Leshner to the Honorable Ronald H. Brown. May 15, 1995.

³⁹ Bureau of National Affairs. *Daily Report for Executives*. Quadrilateral Trade Ministers Support Chinese Accession to WTO. May 5, 1995.

⁴⁰ Barber, Lionel. Brittan Changes Tack on Investment Rules. *Financial Times*. March 2, 1995.

investments; and effective mechanisms to uphold and enforce commitments made to foreign investors.⁴¹ The EU now fully supports the OECD process, but the 15 EU member countries may still decide, as a group, not to accept the final OECD document.

Coordination of Competition Policies

The United States and the European Union have taken steps to share information and coordinate enforcement of their competition policies. Both the United States and the EU wish to reinforce policies that neither impede trade nor permit anti-competitive behavior by companies. In addition to artificial barriers to trade, practices which cause problems include vertical restraints, exclusionary distribution systems, abuse of monopoly power, and horizontal agreements among industries in different countries.⁴² By sharing information and coordinating enforcement efforts, the United States and the EU may be able to deal more effectively with anti-competitive behavior that affects the ability of U.S. and European companies to compete abroad.

The United States and the EU signed an agreement in September 1991, that harmonizes enforcement procedures and regulations. The agreement, which provides for twice yearly meetings to discuss antitrust policy and enforcement, allows the United States and the EU to take account of the other party's important interests at all stages of antitrust enforcement activities ("positive comity"). The agreement may mark an initial step in the direction of coordinated policies, although full acceptance on the EU side was hampered by a dispute within the EU over the European Commission's competency. The United States and the EU are also pursuing cooperation in the area of competition policy within the OECD and the WTO. The Uruguay Round Agreement added the effects of competition policy on trade as one of the new issues to be taken up by the new WTO. Some observers believe that U.S. and European agreement on competition policy would facilitate broader international agreement.

In late July 1995, the European Commission initiated a debate on international competition policy when it released a report that it had asked a group of experts to prepare.⁴³ The group was tasked with exploring ways to

⁴¹ European Commission. *A Level Playing Field for Direct Investment World-Wide*. Communication from the Commission. COM(95) 42 final. Brussels. March 1, 1995.

⁴² United States International Trade Commission. *The Year in Trade, 1993*. USITC Publication 2769. June 1994.

⁴³ European Commission. *Competition Policy in the New Trade Order: Strengthening International Cooperation Rules*. Report of the Group of Experts. Brussels. No date. 24 p. The report does not represent the official position of the European Commission but is significant in that it was prepared at the Commission's request, with the participation of three outside experts and four Commission officials.

strengthen international cooperation in the area of competition policy. The group recommended a deepening of bilateral agreements, with the achievement of a "second generation" agreement between the EU and the United States "a priority."⁴⁴ For the group, such an agreement would imply a commitment not to act unilaterally unless all the means provided by comity have been exhausted. The group also calls for the elimination, on a reciprocal basis, of confidentiality rules applicable to exchanges of information. In addition to deepening the bilateral U.S.-EU relationship, the group called for the establishment of a network of such agreements with other trading partners, especially Japan.

The group's main recommendation, however, was for the "gradual construction of a plurilateral agreement" using a building block approach that would include most of the elements already incorporated in the bilateral agreements. A plurilateral agreement or framework would be based on a set of minimum appropriate competition rules, a binding positive comity instrument, and an effective dispute settlement mechanism. Such an agreement would be based on a core group of countries (identified in the report as the EU, other OECD member countries, the central and eastern European countries, and possibly Korea, Hong Kong, Singapore, and Taiwan).⁴⁵

The Transatlantic Business Dialogue⁴⁶

Governments on both sides of the Atlantic are promoting closer ties between U.S. and European business executives through a new government-sponsored initiative, the Transatlantic Business Dialogue (TABD). A European Commission press release noted that the aim of the TABD is "to encourage links on both sides of the Atlantic, and to provide a platform for industrialists on both sides of the Atlantic to discuss their views on how EU/US commercial and industrial relations might develop."⁴⁷

Four priority topics were selected for the TABD agenda, including (1) product and performance regulations: standards, testing and certification; (2) furthering bilateral trade liberalization: tariff and non-tariff barriers, public procurement and research programs, and trade laws; (3) furthering international

⁴⁴ Ibid., p. 21.

⁴⁵ Ibid., pp. 14-15, 21.

⁴⁶ See U.S. Library of Congress. Congressional Research Service. *The Transatlantic Business Dialogue*. CRS Report 95-982 E, by Glennon J. Harrison. September 19, 1995. 4 p.

⁴⁷ European Commission. EU and US Boost Transatlantic Business Dialogue. IP/95/753. July 12, 1995.

investment and cooperation (bilateral and multilateral); and (4) possible areas of cooperation in third countries (bilateral and multilateral).⁴⁸

While there is no apparent opposition to the TABD, businesses have been cautious in their support of the initiative. Sources say that U.S. business generally supports more dialogue but note that, in addition to the TABD, numerous other channels already exist for business-to-business discussions.

EUROPEAN AND AMERICAN APPROACHES TO REGULATION: A MAJOR STUMBLING BLOCK TO ECONOMIC INTEGRATION?⁴⁹

In both the United States and the European Union, there is now wide recognition that differences in regulatory systems may affect the competitive fortunes of exporters and foreign investors. In the United States, concerns about regulatory differences are usually expressed in connection with the apparent inability of U.S. firms to break into the Japanese market.⁵⁰ Increasingly, however, Europeans express fears that the United States, with its distinctive approach to regulation, may opt for regional solutions (APEC or FTAA) that could lead to the widespread acceptance of U.S. patterns of regulation:

If the countries of East Asia were, as a result of regulatory cooperation within APEC, to align their regulatory systems practices to those of the United States, this would place the EU at a competitive disadvantage, at least to the extent that a large and dynamic part of the world economy developed as a result a system which diverged significantly from that of the [European] Union.⁵¹

⁴⁸ U.S. Department of State telegram, "Preparatory Planning Meeting of the Transatlantic Business Dialogue (TABD), July 27, 1995," prepared by U.S. Mission to the European Union, Brussels, July 31, 1995. Each of these areas for dialogue are a part of existing negotiations or ongoing discussion between the United States and the EU. In a May 15, 1995, response from the President of the Chamber of Commerce of the United States, Richard Leshner, to the joint letter from Secretary Brown and EU Commissioners Brittan and Bangemann, Leshner identified many of the items that will be discussed at the Seville meeting. But he also identified an issue that would probably make U.S. firms pay more attention to Europe: the completion of the single market. Although the EU acts as if a single market is reality, there are a number of areas where a single market is far from being achieved (including telecommunications, standards, and procurement). The letter also noted that "just over 50 percent of the single market measures that require national implementation in all EU countries have been transposed into national law."

⁴⁹ The discussion in this section explains how differences in U.S. and EU regulatory systems can affect bilateral and third country relations.

⁵⁰ Pollack, Andrew. U.S. Trade Negotiator Urges Shift in Approach on Japan. *New York Times*. August 1, 1995.

⁵¹ European Commission. *Free Trade Areas: An Appraisal*. SEC(95) 322 final. Brussels. March 8, 1995. p. 7.

The Commission view is that the European system is distinctly different from the U.S. system. But what is really more interesting is what the statement omits: the U.S. approach extends the principle of national treatment⁵² but does not require others to adopt U.S. rules, whereas the European system extends its regulatory approach and the laws in which that approach is embodied (*acquis communautaire*). When the European Union and the majority of EFTA countries formed the European Economic Area, the EFTA countries received the benefits of the European single market but had to absorb thousands of pages of European Union law (the *acquis*) and be willing to accept all future laws affecting the single market. Similarly, the countries of central and eastern Europe will be required to adopt EU law before they are allowed to join the Union. U.S. FTAs, on the other hand, do not require countries to adopt U.S. laws or regulations, but usually do require partner countries to have laws that are enforceable.

The United States and the European Union have developed very different systems of market regulation that are themselves a major potential source of trade and economic disputes. Mutual recognition agreements (discussed above) acknowledge that differences are significant and that convergence is unlikely to be achieved. In its most recent trade barriers report, the European Commission argues that, rather than reflecting different levels of consumer, health, environmental or other protection, differences between the United States and the EU usually relate to alternative approaches to regulatory issues.⁵³

In a recent article, Michael Smith and Stephen Woolcock,⁵⁴ two British social scientists, argue that the United States and the European Union face a serious risk of conflict and may drift apart if structural differences cannot be

⁵² National treatment provides that foreign investors and suppliers are afforded the same competitive opportunities as domestic firms. National treatment is an established principle enshrined in the GATT, the Codes and Instruments of the OECD, and bilateral Friendship, Commerce, and Navigation (FCN) treaties: "The principle of national treatment accords foreign investors the right to establish and operate an enterprise on terms which are no less favorable than those available to domestic investors in like circumstances." In the financial services area, the concept of national treatment has been extended to ensure *equality of competitive opportunity*, which recognizes and accounts for differences in the circumstances of foreign and domestic firms. Under the principle of national treatment, domestic and foreign firms are subject to host country control. The host government retains jurisdiction and regulatory control over activities which take place in its jurisdiction.

⁵³ European Commission. *1995 Report on Barriers to Trade and Investment*. Brussels. May, 1995. p. 65.

⁵⁴ Smith, Michael and Stephen Woolcock. *Learning to Cooperate: the Clinton Administration and the European Union*. *International Affairs*. Vol. 70, No. 3 (July 1994). More recently, Woolcock further explores differences in U.S. and European approaches to regulatory policy and examines how they are likely to affect future trade and investment relations. See Woolcock, Stephen. "European and North American Approaches to Regulation: Continued Divergence?" Paper presented at the Europeum Conference, Oxford University, September 2-3, 1994.

bridged through intensified cooperation -- a view that is shared by the European Commission. They argue that differences in approaches to regulation are unlikely to disappear anytime soon, and that the United States and the European Union had best learn to manage interdependence because disengagement from the world economy (one possible option) would not appear to be feasible for either the United States or the EU.⁵⁵

Smith and Woolcock identify three sources of systemic conflict in U.S.-EU relations. First, the U.S. approach is based on national treatment and host country control, while the European approach is now based on mutual recognition and home country control. Second, differences also arise out of the particular forms that the market economy takes in the United States and Britain (so-called "neo-American" or "Anglo-Saxon" market economy) and in other dynamic parts of the European Union ("Rhineland capitalism" and the "Latin capitalism" of southern Europe):

[Rhineland capitalism] is based on long-term relationships between investors, suppliers, and customers, less emphasis on capital markets, a clear set of rules (as opposed to deregulation) and a broad consensus among interest groups. [The neo-American market economy] is based on shorter-term financial performance, large and open capital markets, deregulation and competition between individuals and interest groups rather than consensus.⁵⁶

A third distinction relates to the degree of state intervention in the economy (the appropriateness of industrial policy and subsidies) and the role of the state in preserving and promoting culture (restrictions on access to the audiovisual market).⁵⁷ A fourth possible source of conflict could be added to the three proposed by Smith and Woolcock: the question of which governmental level is the competent authority (federalism/subsidiarity). In both the United States and the European Union, the issue of federalism appears to be of greater importance now than in many years.

National treatment provides that foreign investors and suppliers are afforded the same competitive opportunities as domestic firms, and both

⁵⁵ Ibid., p. 5.

⁵⁶ Ibid, p. 467.

⁵⁷ Smith and Woolcock (1994), pp. 6-10. Restrictions on U.S. access to portions of the European audiovisual market are well-documented (see World Trade Organization. *Trade Policy Review: European Union*. Report by the Secretariat. WT/TPR/S/3. 30 June 1995. Pp. 145-147). Recently, European Commissioner for Science, Research, and Technology, Edith Cresson, said, "For us in Europe, it will no longer be just a question of protecting the broadcasting of films on television, but above all of insuring there is a minimum of 'European' content on CD-ROM's and other data bases." Pollack, Andrew. A Cyberspace Front in a Multicultural War. *New York Times*. August 7, 1995.

domestic and foreign firms are subject to the same host country controls (i.e., the host government has jurisdiction and regulatory control over activities that take place within its jurisdiction). Smith and Woolcock argue that national treatment and host country control means that a state retains full sovereignty.

Mutual recognition and home country control holds that any product that is legally manufactured and marketed in one member country must also be admitted into the markets of all other member countries. Under the mutual recognition approach, host country regulators no longer control what may be sold in their country. Instead, home country (i.e., the country that supplies a good, service, or investment) regulators now set the conditions under which goods legally produced and marketed in the home country may be sold in the host country. The mutual recognition/home country control approach is inconsistent with an approach based on national treatment because countries that provide national treatment would be required to extend better than national treatment to foreign competitors.

Many observers of the new European approach believed that home country control would lead to regulatory competition (that is, a competition among rules) within the European Union as business and regulators reacted to the entrance of new market participants, the provision of new products and services, and the ability of consumers and firms to arbitrage among revealed differences in national regulation.⁵⁸

However, Jean-Mey Sun and Jacques Pelkmans, in a careful analysis of regulatory competition in the post-1992 single market, suggest that, despite persuasive theoretical arguments favoring such an approach, the case for regulatory competition has yet to be conclusively demonstrated.⁵⁹ Their analysis shows that the effects of regulatory competition are complex and unpredictable, and they cite the banking sector as an example where the results have been somewhat murky. They argue that the creation of a single market lowered the costs and disadvantages of harmonization (an approach that seeks to establish common rules and regulations for all member states) relative to regulatory competition, and conclude that, "when regulation is economically justified, regulatory competition and harmonization should be seen as complements, rather than substitutes to one another, with the demarcation

⁵⁸ Siebert, Horst. *The New Economic Landscape in Europe*. Oxford, UK: Basil Blackwell, 1991; Sun, Jeanne-Mey and Jacques Pelkmans. Regulatory Competition in the Single Market. *Journal of Common Market Studies*. Vol. 33, No. 1 (March 1995).

⁵⁹ Op.cit. Woolcock draws similar conclusions for capital markets and the pharmaceutical sector. Woolcock, Stephen. *The Single European Market: Centralization or Competition among National Rules?* London: Royal Institute of International Affairs, 1994.

between the two determined on a case-by-case basis according to the principle of subsidiarity."⁶⁰

If the case for regulatory competition cannot be made unambiguously for the European Union, should mutual recognition and home country control be adopted as one of the building blocks of a new transatlantic relationship? Or should U.S. policy makers continue to insist on national treatment? Smith and Woolcock conclude pessimistically that the difficulties the United States and EU face "make the establishment of anything like an Atlantic single market an unlikely scenario."⁶¹ Could a single market or economic space be created without reconciling the systemic differences that Smith and Woolcock point to? A 1993 report by the Carnegie Endowment for International Peace notes that "the integrated Atlantic economy is becoming a new single market."⁶² The Carnegie report recommended that national treatment be the cornerstone of future U.S.-EU market integration.⁶³

The need for improved regulatory cooperation is widely acknowledged. Progress in achieving greater cooperation in the regulatory sphere would probably facilitate improved U.S.-EU relations. Such an initiative could conceivably be pursued either as part of a wider transatlantic initiative or separately. If policymakers decide that it is desirable to give greater direction to the path or pace of transatlantic economic integration, they might consider the range of options that are available. These include further integration based on the expanded application of national treatment, the selective use of mutual recognition agreements, a more comprehensive policy of mutual recognition with home country control, and greater harmonization of laws and regulations. These policy options are not necessarily complementary (for instance, national treatment and mutual recognition are at odds with one another), although the goal of each is to facilitate transatlantic business and economic relations.

⁶⁰ Ibid., p. 88. The term "subsidiarity" refers to a principle that holds that decision making should be made at the lowest appropriate level. According to W. Gary Vause, a law professor, "subsidiarity creates a presumption of deference to state or local government decision making in those areas of concurrent jurisdiction." W. Gary Vause. *The Subsidiarity Principle in European Union Law - American Federalism Compared. Case Western Reserve Journal of International Law*. Vol. 27 (Winter 1995).

⁶¹ Op.cit., p. 466

⁶² Nelson, Mark M. and G. John Ikenberry. *Atlantic Frontiers: A New Agenda for U.S.-EC Relations*. A Report of the Carnegie Endowment Study Group on U.S.-EC Relations. Washington, DC: Carnegie Endowment for International Peace, 1993. Pp. 10-11.

⁶³ Ibid., p. 16.

CONCLUSION

A new transatlantic initiative (whether a treaty, an FTA or transatlantic economic space, or TABD) has some appeal for policymakers and the business community. But given the generally close economic relationship between the United States and the European Union such a finding should not be a surprise. Many would expect such an initiative to generate considerable benefits for both trading partners, while reducing the potential for disputes that have been a regular feature of the transatlantic trading relationship during the post-World War II period.

While a new transatlantic economic initiative lacks definition at this time, the United States and the EU could pursue any of several options. The European Commission has apparently concluded that a formal free trade agreement is currently beyond the bounds of what may be achievable, given entrenched protectionist (especially agricultural) forces in a number of member countries. It is promoting a less ambitious agenda (a partial FTA that may be WTO-illegal) that repackages many of the existing issues where agreement appears most likely to be achievable. This strategy depends on increased regulatory cooperation, which one analyst has described as "a pragmatic area-by-area cooperation aimed at facilitating trade and investment."⁶⁴

The United States and the EU may manage to create a better economic climate by hammering out such agreements on competition policy, investment policy, standards, testing and certification, tariffs and tariff peaks, and cooperation on third countries. But unless either the United States or the European Union were to change their basic approaches to regional and multilateral initiatives (the United States demands national treatment with host country control and the European Union insists on mutual recognition with home country control), the level of economic integration will not approach anything like a single transatlantic market.

Economists, such as Jeffrey Schott, have argued that a transatlantic arrangement that does not include agriculture or important service sectors may hinder efforts to strengthen multilateral trade disciplines under the WTO. They argue, therefore, that rather than pursuing closer economic ties through a transatlantic regional arrangement, the United States and the European Union should devote their efforts toward expanding coverage under the WTO.⁶⁵

Concluding a preferential trade agreement with the European Union would not be easy. The European Union approach to economic integration differs in significant respects from the U.S. approach. Both the United States and the European Union are building regional blocs: the U.S. approach is based on

⁶⁴ Woolcock, Stephen, email comment, August 11, 1995.

⁶⁵ Schott, *op.cit.*, p. 11.

national treatment and host country control, while the European Union is expanding on the basis of mutual recognition and home country control. These two approaches are not especially compatible and neither bloc is likely to change course. One approach to the issue of diverging blocs might be regulatory cooperation in selected areas where trade and investment barriers cause problems. Such an approach would not necessarily require the creation of a transatlantic economic space or a free trade area to achieve positive results. Of greatest risk to such a high profile endeavor are long-festering issues that might be excluded from any new initiative: agriculture, audiovisual (and perhaps information infrastructure) policy, aircraft subsidies, and electronics tariffs. If these tough-to-solve problems are ignored or excluded from negotiations, any new transatlantic agreement may only be an empty and insubstantial declaration.