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A EUROPEAN UNION-UNITED STATES FREE TRADE AGREEMENT

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P R O C E E D I N G S

MR. MELTZER: Good afternoon, everyone. Welcome to Brookings this afternoon to discuss a U.S.-EU Free Trade Agreement.

President Obama, in his State of the Union speech earlier this month, formally announced that the United States and the EU would negotiate a comprehensive trade and investment partnership and a similar announcement was made by president of the commission, José Barroso, as well, and this followed the release in early February of a U.S.-EU high level working group on jobs and growth that recommended the commencement of comprehensive transatlantic trade negotiations and these trade negotiations are likely to formally kick off later this year.

If you look at the high-level working group, we see that the ambition is significant, of its intention to reduce tariffs to zero on all goods, new market access for services, commitments on investment, rules on non-tariff barriers and other regulatory issues, as well as rules on so-called shared global challenges.

As the EU and U.S. account for approximately a third of world trade, the benefits economically are potentially significant. Some modeling suggests around about half percent of GDP for each economy with this in the event of actually a comprehensive outcome where you're going to have some other dynamic gains, the gains could actually be significantly larger.

Now, the negotiation of a transatlantic Free Trade Agreement also takes place in a particularly interesting and dynamic global trade context. The WTO

Doha Round remains stalled, though there is some momentum to negotiation a plurilateral services agreement and to try to reach agreement on a limited number of issues for the WTO Ministerial Meeting in Geneva at the end of this year.

In parallel, we also have the United States negotiating the Trans-Pacific Partnership Agreement with ten other countries, which include Canada and Mexico, and following the recent visit by Prime Minister Abe to Washington, it appears that the prospects of Japan joining the TPP in the short-term have improved considerably. And in this event, the current goal of trying to complete the TPP negotiations by the end of this year is probably not going to be reached, but inclusion of Japan in these negotiations would be a significant economic and broader strategic gain for the negotiations.

At the same time, the EU is also commencing Free Trade Agreement negotiations with Japan in addition to a range of other FTAs including one with Canada. And it is interesting to note that none of the trade agreements that I've mentioned include any emerging economies such as China, India, and Brazil.

China, for instance, is focusing its attention on negotiation Free Trade Agreements in the Asia region, such as a trilateral FTA with Japan and Korea, and a regional comprehensive economic partnership with ASEAN -- China, Japan, Korea, India, Australia, and New Zealand.

So, I raise this context just to suggest two general points, the first is that these transatlantic negotiations are going to have important implications

for the broader trade liberalization efforts currently underway and also that the transatlantic negotiations are likely also going to be influenced by the outcomes of the current state of trade negotiations.

So, we certainly have a lot to talk about this afternoon.

Let me introduce the panelists. To my left is Simon Smits, who is Director General for Foreign Economic Relations and Vice Minister for Foreign Trade at the Ministry of Foreign Affairs in the Netherlands. Mr. Smits studied English literature and international law at VU University in Amsterdam. He then started his career at the Ministry of Foreign Affairs and has held a range of very senior positions, including head of the bureau of the secretary general, head of the economic department at the Netherlands embassy in South Africa, head of nature and environment at the Permanent Mission to the EU in Brussels. He's also been senior advisor for government relations to Shell International.

Further to my left is András Simonyi, who is the Managing Director of the Center for Transatlantic Relations at the School of Advanced International Studies at Johns Hopkins University here in Washington. He's had a long professional career in diplomacy, also working in non-governmental and governmental organizations in the private sector with a constant focus on transatlantic relationships.

He's actually held some of the most senior positions in the Hungarian Diplomatic Service, including as ambassador to NATO and as ambassador to the United States.

I'm now going to pass off to my panelists who are going to make

some brief comments for around about five minutes. After that, we're going to engage in a conversation here on stage, and then we will open up to Q&A to the audience. Simon Smits?

MR. SMITS: Yeah. Well, thank you very much, indeed. It's great to see you all here. There's still two seats left in the front, so first takers are welcome to sprint to the front.

I have prepared about a ten-page speech, which I will not read out. I will pick up some points of particular relevance to the Netherlands' position, and then I hope for a very interesting Q&A session, and thanks to the Brookings Institute for having me.

The news, you already alluded to it, in the State of the Union, I think, was extremely warmly welcomed in the Netherlands. It's something that we have lobbied very hard for, the Netherlands, of course, being a very prominent and also being Dutch, also very vocal advocate of free trade.

We earn about 30 percent of our GNP abroad, so a TTP, as we now phrase it, would fit in, I think, perfectly with trade policy that we have been pressing for within the EU.

We have, of course, the Netherlands and the U.S., extremely strong political and economic ties, and this is not just because we are the only two nations in the world that eat peanut butter -- there's no one else who does that, I think.

At the same time, we have to be realistic. Transatlantic share in the global economy is, of course, declining. Yes, we are still very tightly

integrated, more than any others, probably, in the world, and it's true that transatlantic investments, if you look at EU and the U.S., amount to about \$3.7 trillion.

Bilateral trade balance is still about \$1 trillion a year, so you could say while the going's good, you know, why worry? Well, this is exactly why I want to make a few points on why we haven't done this before and why this is now really the time to start negotiating and do it quickly and comprehensively.

I will mention just five points, and I think I will leave it at that. First of all, the present crisis is obviously forcing us to take action. We simply can't ignore any longer the potential benefits, and also, if we look at the fact that neither fiscal policy nor monetary policy are really yielding any results, we have to get to a growth agenda.

In China, the word, and you all know this, of course, for crisis, is both depicting threat as well as opportunity. And it's also said that a good crisis is a terrible thing to waste, and I think this is exactly why we should get cracking on this agreement.

Furthermore, if you look at the global playing field, we have emerging economies like China, recently overtaking the U.S. as a trading nation, India, and they are not really giving us much extra time to get our act together. If you look at China, 1.7 billion people, we, together with the U.S., will amount to about 800 million.

There's also positive news because we don't have to start from scratch. Both the U.S. and the EU have concluded FTAs with -- for instance,

with Korea, we are on the verge -- the EU is on the verge of concluding an FTA with Canada, and those are important stepping-stones. So, we have already a good basis, I think. We can build on these efforts.

I already started with this, but it's good to remember that there is now a commitment at the highest political level, both in the U.S. as well as in Europe, and we can discuss this further. And even if, you know, you get some diverging views on what is in and what is out and how comprehensive the agreement would have to be if you listen either to President Barroso or to USTR Kirk, that is also something I think that will have to be straightened out, obviously.

Most importantly, I think, and I'll end with this, we are now offered a window of opportunity to start historic negotiations that will be to a huge benefit to both the EU and the U.S. We have now an opportunity to set standards according to the standards that we have always adhered to, and they're obvious. But I will mention them anyway. It's about a regulatory framework based on the rule of law with respect for human rights and human dignity, respect for the environment, a level playing field. These are things that we have to, I think, on the basis of the values that we share, start working on.

We have many studies, and this is political as well as the economic argument, that reveal that there is a lot to be gained, not only about the tariffs, but there is a lot to be improved still about the tariffs, even if they are pretty low. I think 75 percent of U.S. tariffs are 5 percent or below, if you talk about bilateral trade with the EU. The EU has about 42 percent, but still, the small percentages, they govern a huge array of products. So, that, in itself, will

be an enormous benefit, and of course later we can talk about the services issues, et cetera, and not forgetting agriculture.

I think, as I said, and I will conclude with this, we have a historic opportunity here. We can open up new opportunities, crises in the past have led to major improvements and major strides in international cooperation, strides forward, obviously. If we only think about the strategic cooperation in NATO after and during -- after the Second World War and during the Cold War, obviously, so we can seize onto this crisis, I think, to strengthen our economic ties. And together, I think, we can show the world that free trade has a more positive effect than mere mercantilism.

We are still the most powerful economic blocks in the world and we can show that we have to overcome our differences, create common standards and rules, or at least, accept one another's rules so that together we can, well, boost the economy and provide the jobless with work and with a future.

Thank you very much.

MR. MELTZER: Thank you. András?

MR. SIMONYI: Thanks so much. Well, first of all, I'd like to build on what the Director General has already said, and I will not go into the data and all the related material.

I just want you to know that our Center produces, every year, the statistics of the transatlantic trade and investment and the new booklet, you might have seen it, the new booklet -- this is last year's -- the new booklet is coming out in a few weeks. And the fact is that the data that we have and the

data we have worked with, basically, does not change the narrative. This is really the strongest relationship and it's very, very impressive, and you will see from this year's data that there's no reason to think that this relationship is getting weaker or sliding backwards.

I mean, there is, of course, competition in the world, rising powers, but the bottom line is, this is still the most important economic relationship in the world.

Now, I want to -- I think, much rather than us taking, you know, making monologues, I think it will be important to have a good conversation with the audience, but the fact that so many of you have shown up here underscores the real interest there is in the subject, and I'd like to put it in a kind of strategic perspective.

I think it's very important to understand that we're talking about much more than just transatlantic trade and transatlantic investment, we're not just talking about regulations. What we're talking about is a new foundation, a new possibility to reshape and reformulate a transatlantic relationship.

I think, for too long, this relationship has had its questions and too many doubts have lingered. The bottom line is, I have never been among those who ever doubted that this relationship will remain strong, but we have to reckon with the fact that the institutions that, until a few years ago, maybe a decade ago, held this relationship together, are going to change, and so therefore, I think, this is a good opportunity -- this is an historic opportunity to reshape, reformulate the foundations of this relationship. So, this is one thing I want to say.

The second thing I want to say, the advantage of being a European working in Washington, DC and being part and parcel of breathing the air with my American colleagues and friends, is that I do hear the voices loud and clear from both sides of the Atlantic, and what I hear on both sides of the Atlantic is that there is a political willingness and desire to get this done, period.

Of course, there are questions, there are some who doubt this, but the political narrative is loud and clear, we want to get it done, and there are several reasons why I think we can be and we should be optimistic.

First, Europe and America have made at least two efforts to figure out a transatlantic kind of Free Trade Agreement, one '95 when Clinton made an effort. At that time, the economy of China was the size of Turkey. Things have changed. In 2007, the Bush Administration made another effort with a Transatlantic Economic -- what was it? TEC -- Council. Yes, the Transatlantic Economic Council. I don't want to dwell on that. Things have changed and I think the narrative has changed to a great extent.

I think we are all looking for drivers to improve and increase our economic output, to modernize, to make ourselves more competitive, and I think this is one aspect of the drivers. But the other aspect of the driver I want to stress is really the strategic narrative. I want to say that I can see that when I am optimistic, I also am cautiously optimistic because -- and here I want to conclude -- I do see dark clouds, but I think we can chase away these dark clouds. I think, on some of the major, major issues, and you will be asking them anyway -- agriculture, information technology, privacy issues, I mean, oh, my god, what is

this guy talking about? Well, the fact is that if we allow theological warfare to take over instead of religious tolerance, then we are going to be in big trouble.

But I do see on both sides a willingness and desire to get this done, and therefore, I see more voices, louder voices, that are saying, let's put all this aside and let's figure out where we can -- how we can make this happen.

I'm sorry, from me you will never hear a more pessimistic view on this, so let's get going.

MR. SMITS: Realistic. Thanks.

MR. MELTZER: Great. Thank you. I'm going to take the opportunity to ask a couple questions and then we'll open it up to Q&A.

The first question I want to ask pulls out a little bit on some of the output from the high-level working group report, and there's a section on it which talks about developing rules between the U.S. and the EU to address shared global challenges.

And some of the challenges that the report lists, for instance subsidies to state-owned enterprises, export restrictions on raw materials, and localization requirements, now these -- these seem to me to be less about addressing, you know, trade and investment barriers between the U.S. and the EU and more about addressing our practices in third countries.

So, I guess my question is, to what extent is this transatlantic trade negotiation an opportunity to set rules, not only for the U.S. and EU, but also globally? And if so, how do you go about achieving this in the context of a bilateral negotiation?

MR. SMITS: Okay. Well, first of all, we have a number of bilateral issues that I think we should take in our stride when negotiating this agreement. If you look, for instance -- well, they're not actually state-owned enterprises, but they are being accused of getting state subsidies -- look at the Airbus and Boeing issues. We have to get that out of the way. Look at global issues like climate change. It's telling, I think, that President Obama mentioned, both in his inaugural speech as well as in his State of the Union, he mentioned climate change and he mentioned this in his State of the Union speech in conjunction with the trade agreement.

So, obviously, this has to form, in some way or other, part and parcel of an agreement. There will be an environmentally related chapter in any agreement that we will have to sign and we will have to agree on.

Moreover, in the European perspective, and that is, I think, also important to realize, this is the first time that the European Parliament will be involved in the decision-making, first ever time. So, if we would not have thought of this ourselves, the European Parliament, society, NGOs, would have pointed us to the fact that these are important issues that have to find a place in any agreement.

MR. MELTZER: Great. Thanks.

MR. SIMONYI: Yeah, I think, yes, we're setting global rules, and when we conclude this agreement, we have -- we will have set global rules, and we have to be very frank and honest about it.

I think what we're talking about, seriously, is the reaffirmation of

the liberal order and I think that's the way we look at it, and, you know, I think we have to be very frank and open about it.

Also that that is why I think we have to be transparent and open, not about the tactical positions, of course, but about what's happening? How far are we? Which direction are we going? What are we aiming for? And make sure that others can join in when we have concluded so that this is not seen as a threat, as an exclusive club, but really us setting standards -- setting standards globally, and I want to name all the issues where we seriously have to do that.

MR. MELTZER: That's very interesting. Thank you.

One more question. I'd like to just place this a little bit in the context of what's going on in the WTO because I think one might say the conventional wisdom, to some extent, in the past, at least, has been that a U.S.-EU Free Trade Agreement could be particularly damaging for the multilateral trading system, you know, given the size of the economies and the significance of the rules that are agreed.

And so, my question to you is, is this still the case? And if it is not the case any longer, what has changed?

MR. SMITS: This morning I was at a seminar at the Dutch embassy and I said, I love the Doha Round and I've loved the Doha Round for more than a decade, but that, in itself, has not really yielded any results, although we all recognize that the Doha Round is an extremely important multilateral initiative.

We also have be realistic. It hasn't gotten really where we would

really want it to get, for anyone involved. So, what do you do? You can wait for something to happen and you can see what other possibilities there are within a multilateral rules-based system to get results, and now we are doing this, for instance, in a plurilateral on services. We are doing this as close as possible to WTO rules, which means that if we agree with a core group and with the really good friends of services, that of course it's open to anyone who wants to, you know, join, wants to adhere to those rules, to join in.

So, this is just a way of, you know, finding solutions in the present situation. So, it's -- well, you know, you have to find the right balance between idealism and realism, and that's not to say that plurilateral on services or any of the bilateral Free Trade Agreements that both the U.S. and the EU have been concluded are not, you know, ideal or idealistic because they are open, of course, for others to join or at least standard setting for other bilaterals.

But in the end, I mean, companies, but also citizens, are asking for progress. Globalization is there, the trends are there, so we can wait for Doha. On the other hand, the world is moving on and there's other players on the block than just the U.S. and the EU.

MR. MELTZER: Thanks.

MR. SIMONYI: Well, I just want to add the group of people that are most impatient is the business sector. Let's be frank about this. You know, of course I say it's politically driven, it's strategically driven. Bottom line is, business wants this to happen, business on both sides of the Atlantic. And let's face it, you know, the Netherlands is right there on the top -- maybe the third

most important partner in this relationship.

You talk to businesses from the Netherlands and you talk to U.S. businesses that are active with billions and billions of dollars of investment in the Netherlands, they will tell you, hey, wait a minute, one thing has to be clear, this cannot drag on and drag out like Doha did.

And I think the -- I think it's a related point when the Obama Administration says it's got to be done on one tank of gas, we're all scared. I mean, wow, how long will this vehicle go with one tank of gas? Well, the message is, we either do it on one tank of gas or there is a danger that we slide into what we already know, and we don't want that to happen.

MR. SMITS: And of course we need a very energy efficient vehicle that will hopefully, if you would ask me to put a timeline on it, that will take us maybe to the first semester of 2016 when the Netherlands has the EU presidency.

MR. SIMONYI: That's great.

MR. MELTZER: Great, thanks. Before I open up to Q&A, I'd like to invite Dr. Koen Berden to ask a question or just say a few words. I know he's here as part of the Dutch delegation, as Commercial Director and Senior Partner at ECORYS and has done some interesting work on this topic.

MR. BERDEN: Thank you very much. Yeah, I would like to just add a few short points. We've done a study for the Ministry of Economic Affairs in the Netherlands, and simply, I'm very happy with the way this already goes and I'm looking forward to the discussion.

One of the things we found -- and actually, two years ago I was here on the other side of the street discussing whether it should be a tariff-driven Free Trade Agreement or a non-tariff barrier-driven Free Trade Agreement. I'm very happy we've passed that stage and it's actually both, so we don't need to discuss that anymore.

Actually, that also means that the benefits for EU and U.S. are bigger and much more equally divided, because both benefit from the different elements of these negotiations.

I'm teaching international economics at the Erasmus University for 15 years and every single year I'm actually saying, this is a fascinating year for international economics.

This is definitely, so far, the most fascinating year and this whole EU-U.S. initiative is the real reason for that.

A few points in addition to this. First of all, it is, I think, very imperative that both sides realize that it's the comprehensiveness of the deal that's going to be decisive. If, at any point, a lot of sensitive issues are going to be excluded on either side, the impact and the importance of the agreement is going to diminish very fast. So that, as an economist, I'd like to pass on.

The other aspect, it's been mentioned that business is a very strong supporter of this deal, but it's also, I think, important to realize that it's not business, as such, that American firms support the U.S. government in this endeavor and EU firms, the EU government, the EU institutions, because we see that due to this incredible cross-investments of large firms, the big businesses

are actually in support of free trade, as such, and against any barrier in the transatlantic marketplace. And that's a very important difference with the situation, for example, 15 years ago when these cross-investments were still significantly lower.

It means that certain large companies like Airbus actually argue in favor of some of the elements of the U.S. government and Boeing in favor of EU arguments. It also means that when we look at some of the barriers, for example, the discussion on subsidies of bio-ethanol on the U.S. side, EU firms actually tell the European Union, we don't mind the subsidy, because the subsidy makes bio-ethanol cheaper and it means we get actually cheaper inputs for our industries.

It is a very complex situation where business and governments are not necessarily aligned.

The last point I want to make is that in terms of buy-in and support for this agreement and these negotiations, consultations with stakeholders are absolutely crucial. So far, you see in all these agreements that consultations take place, but these are really the most complex and the most far-reaching ones. There will be a multitude of stakeholders involved and a very proactive approach from everyone is really needed to get the right information on the table in time for the negotiations to succeed.

I would like to leave it at that. Thank you very much for giving me a few minutes to present this, and I'm, of course, also open for questions. Thank you.

MR. MELTZER: Great. When you -- there's a roving microphone. When you get it, could you please introduce yourself and your affiliation? Start at the front here.

MS. HENNIG: I'm Uta Hennig from Inside U.S. Trade. I was wondering if for one minute you might move away from the grand thoughts into the nitty-gritty, and that is, can you -- would you explain a little bit how you see the process from the extremely general of the high recommendations, of the high-level working group, being whittled down to define the scope of a negotiation? Is that something that will happen once the commission has a mandate and the U.S. has gone over its 90 days notification period? Do you think that is going to be the subject of that first negotiating session that is now tentatively scheduled for July in Brussels? Or is this something that happens before?

And in that context, how do you see the possibility for including financial services? There's a clear message from the commission that regulation of financial services, they do not see as a fruitful endeavor for regulatory cooperation, but I'm wondering, is there any question on whether the market access element of financial services would be included. And how do you see the dynamics on investment? I'm picking up some reluctance from the German side to give the commission the power to do a first U.S.-EU investment agreement, which would obviously trump the bilateral Germany-U.S. idea. Can you give us some perspective on that? And I apologize for asking such simple questions.

MR. SMITS: Well, simple questions deserve simple answers.

First of all, on the process, the -- and you're right, of course the mandate is a crucial starting point. We, as membership of the EU, we need to give a mandate, a negotiating mandate to the commission and we hope that that can be concluded and finalized during the Foreign Affairs Council on Trade still under Irish presidency, that means in June of this year.

That would mean, provided that the U.S. has then maybe named the next USDR, that we could even start negotiating provided the American mandate has been given by that time. You had mentioned the 30 days -- sorry, the 90 days, three times 30 days, yourself. Then we could maybe even start before the summer, depending on your definition of summer, obviously, but let's say that this summer then we could start negotiation.

I already said not only the membership, but also the European Parliament has a role to play in this and will not be silent and wait for any result or interim result. You say that the high-level working group is extremely general. I don't agree with that because there are, I think, already -- in the high-level working group report, there are already some very good indications as to what the high-level working group would see as a good way forward, like getting some results doing step-by-step approaches, obviously identifying issues of common ground as well as differences.

The seminar this morning at the Dutch embassy was called "Finding Common Ground". I think that's a very good basis to start with.

Obviously, if you look at agriculture, there's a lot of common ground and there's quite a lot of differences, if you look at SBS, SBS+, also

intellectual property rights, privacy arrangements.

What I think is also important to mention, and I discussed this with Koen over lunch, is that if you look at the ECORYS study, and I would advise you all, and I think the embassy can provide you with the report. It's, of course, from a Dutch perspective, but also from a very European perspective. If you look at the enormous gains and you say -- sometimes it said that, for instance, in the U.S.-Canada agreement, it was largely overrated or exaggerated, et cetera. Well, I heard Koen say, this is even underrated and underestimated if you look at the effects, for instance, and that's also answering your question, on innovative investment that will be a result of this agreement on the development of technology that is, of course, now very hard to calculate, but that is already -- and that's why it's not calculated. But that means there are pluses in the total and maybe, Koen, if you would elaborate on that -- that, I think, is a very important notion as well.

So, I cannot predict now either how long the whole process will take, although I hope it will end, as I said, in the first semester with a concluding agreement during the Dutch presidency, that would be a realistic one, but let's not forget, I mean, we've taken -- and this was a simpler one -- more than two years with South Korea. So, to be a bit realistic, I think 2016 would -- in my book, would be fine apart from the Dutch presidency argument.

Koen, would you maybe want to?

MR. BERDEN: Thank you. There's not very much to add except for the fact that if we look at past Free Trade Agreements and compare the ex

ante predictions of the effect versus now that we know what really happened, we see that many of those predictions have been underestimates because in any of these quantitative calculations, neither, let's say, dynamic investment effects, nor technological innovations have been factored in, because we don't know how to quantitatively do that. And those factors are pluses that, also in the calculations that have been done for this Free Trade Agreement, are being ignored at the moment. So, that's what happens and that's based on the historical evidence from other Free Trade Agreements like the EU-Chile Free Trade Agreement, for example, so far.

MS. HENNIG: What about my question on investment and financial services? Could you just --

MR. SMITS: Well, services and -- well, that's interesting because on the one hand, in WTO, we have, of course, a plurilateral in services, which has its own dynamics. I will not comment on what Germany or France or whoever our colleagues are in the EU will think about certain subject.

We think -- and I repeat what Koen said -- the more comprehensive, the bigger the benefits, so we shouldn't a priori start excluding things, be they GMOs or be they services.

I mean, to give you a concrete example, for the Netherlands, it is extremely important to get something done on the services. The Jones Act, dating from almost 100 years ago, is not good for the American economy and is certainly not good for our service providers and (inaudible). You could do a lot cheaper and a lot better.

And if you look at, for instance, the post-Sandy problems you had with transporting gas up north to the afflicted areas, if you talk to the American ship owners organizations, associations, they are -- well, I wouldn't use the term penalized, but their business is being hampered by an act that is almost 100 years old. Of course, a lot of discussion about this in Congress, but that is basically not helping the American economy, if I'm being diplomatic about that.

MR. MELTZER: András?

MR. SIMONYI: Yeah. Just a couple of points. First of all, I just want to reinforce what has been said. What will not work, that we put everything on the table and then start taking them off. That will not work. And I certainly agree that it is going to be worth the fight to keep as much on the table as possible, as politically and socially possible, because you have to have -- there is the social element that we have not mentioned yet.

So, this is one thing, and it's very important that we keep repeating this.

The second thing, it relates to what Koon has said earlier, it's about the stakeholders and you have also mentioned it, it's a out making sure that all the stakeholders are part of the process from the beginning because we will be up for a big surprise if we have a fine negotiation, the Administration, the European Commission, and European governments, and at the end of the day, we stand there and we're going to face a hostile Congress, a hostile European Parliament, hostile nations, a hostile public, and maybe even a hostile business environment. I don't know. I don't want to be negative, but I just want to make

sure that it is understood.

And here, just one more element, it's important that we all do our best to explain to the other side how our system works, because working today in Washington, understanding -- hopefully I do understand how Congress works and understanding how the European Parliament works -- the shocking thing is how little Europeans know about how the American government works and what the role of Congress is, and how little Americans know about the new increasing role of the European Parliament.

So, therefore, I just wanted to advise very strongly why, of course, the nitty-gritty is important. We will -- you know, yeah, sure, the devil is in the details, but trust me, if we don't get all these institutional arrangements and we don't have, all of us, the mindset to keep that in mind throughout the process, we might not be able to finish it by the time -- by the way, which I think, is a totally realistic time, if you ask me.

MR. MELTZER: I think we might grab maybe three -- two or three questions and do them in a batch. We'll start with one on the right at the back, just there.

SPEAKER: My name is Joseph Vasely. I'm with Public Citizen's Global Trade Watch.

In the past, American Free Trade Agreements have included investor-state dispute settlements mechanisms that have basically allowed private entities to skirt domestic legal systems and directly take states to the dispute resolution system.

This has always been premised on the idea that the partners that we've been dealing with have had legal systems that there were concerns about or underdeveloped. Considering that all members of the potential Free Trade Agreement in this case have fully developed legal systems, would you expect that the investor-state dispute settlement system would be skipped and left out? Or, if not, why is it still included?

MR. MELTZER: Great. Thanks. Yeah, on the -- just here, this gentleman.

MR. KIRISCI: I'm Kemal Kirisci, the director of the Turkey project here. I don't want to add more complications to this exciting objective there, but since I've started here in January I've been following this issue and talking to a lot of Turkish businesses, American businesses, and I was at your Ministry ten days ago talking to your colleagues from (inaudible) as well as Europe.

Is there any thought being put into where all this is going to leave Turkey and the Customs Union? There is an excitement, but there's also a lot of concern that this may adversely affect Turkey, but also the whole economy in its neighborhood. And as András was mentioning the strategic significance of this, at a time when we in Turkey, there's a Prime Minister who would like to join the Shanghai Five, keeping Turkey on this side of the fence is going to be important. And this excluding it from a free trade arrangement may not be the best arrangement.

MR. MELTZER: Great. Thanks. Maybe one more.

MR. GORDON: Hi. My name is Bart Gordon. I'm a retired

member of Congress and a partner at K&L Gates. Clearly, there are a lot of similarities between the U.S. economy and culture, but there are also things that aren't so similar in culture. (Inaudible) shows us one area, GMOs shows us another area.

As you pointed out earlier, I think this agreement is more important for standards and regulations for the future industries than it is really for tariffs and things of that nature.

So, looking forward, nanotechnology, synthetic biology are going to be great drivers of the economy in the future. But with that, there are health and safety issues that go along with both production and the use. And I just want to see if that has been discussed within the European community. Do you see a different view in health and safety as you would be with GMOs in nanotechnology where we're already having cosmetics that are heavily nanotechnology driven? And the potential implications for health, how is that going to be viewed? And do you think there's going to be differences between the U.S. and the EU?

MR. MELTZER: Great. I think we should stop with that for the moment. Who wants to go first? Simon?

MR. SMITS: Dispute settlement, Turkey, and standards and the technology.

Dispute settlement and investment protection will always be part of any international or bilateral agreement. How you arrange this, for me, is hard to say, but I can give you a concrete example from within the European Union where, for instance, before Slovakia joined, we had, as the Netherlands, a

bilateral investment protection agreement with Slovakia, with Bratislava. Now, it so happens that we had a settlement, one of our health insurance companies, with the government who said, well, this is something for the state, we don't want private enterprise in health insurance, and so they started nationalizing or going back on their promises.

So, the company took them to arbitration and won and they have to pay damages, just -- this is within the EU still. So, you need dispute settlement. Obviously, because of the internal market we will harmonize this, but if you can't harmonize, you have to at least recognize, that goes not just for investment protection, but for almost anything to do with disagreement.

So, if you can't get to harmonization, it's also part of the answer to the third question I will come to in a minute, then you at least have to have mutual recognition.

How this will pan out is not for me to say. I don't know -- that is preempting the whole discussion. I do agree, of course, that we are dealing here with the two most powerful economic blocks, with very sophisticated legislation, with good recourse to law, to legal proceedings, et cetera, so in that respect you could expect a slightly, you know, lighter model. But I will not preempt.

Turkey. I am not at all convinced that this agreement will be to the detriment of Turkey. Rather, the contrary. As you know, Turkey has a preferential status, a preferential partnership with the EU and anything, I think, that will be to the benefit of Euro, of the Euro Zone, of the European economy, will also be to the benefit of the trade between Turkey and the EU and I think if

you look at the bilateral trade figures now, I am not at -- there will not be a diversion in bilateral trade. I don't believe it, for one thing, but maybe we could ask ECORYS to make a study on this and maybe, Koen, you have some economic arguments for this? Not now. Okay. You'll get a study.

Then standards, technology, I must say, I didn't fully, you know, get the gist of your question. This is obviously something that also has to be part of the negotiation about technology development. I know that there are also linking to, for instance, intellectual property, there is specific legislation in the U.S. We'll have to look at that in, you know, the various kinds of exchanges, but maybe you could, you know, elaborate a bit on your question, because --

MR. GORDON: Well, as you know, there was resistance in the EU to GMOs that were coming in. Part of that was a reflection, I think, of parochialism in agriculture, but also there's legitimate difference in health and safety views, again, just as in privacy, as I mentioned with -- but and when you look to the future, again, nanotechnology, synthetic biology are all going to be -- you're altering the norm as you did with GMOs.

And so, on the one hand, you have great drivers of commerce in the future, and on the other hand, you're going to have potential cultural differences in how this is going to impact in health and safety ways. And I guess the question was, is there discussions and debates in the EU on health and safety standards and risk of nanotechnologies, synthetic biology, and things of that nature? And, if so, that's going to make this a tougher nut to crack, but it's going to be important, I think, to future commerce.

MR. SMITS: Yeah, well, of course, there are -- and that's no news -- there are cultural differences. I think what is very important, if you look at, for instance, the GMO debate to take a science-based approach, this is also something that has been advocated by the commission and by my country. We should get the emotion out of the debate. It's very important to take a science-based approach.

Obviously, we have various modes of regulation; we have various means of enforcement. It's been a long and complicated debate, as you know, inside the EU. It will be hopefully, not long, but certainly it will be a complicated debate in the negotiations on this agreement.

I am quite sure that it's worth the trouble because as we are progressing and as we can at least, if not harmonize, then at least recognize one another's product risk assessments, that is the first step forward.

MR. SIMONYI: Yeah, I'd just like to add a couple -- first, on Turkey. I totally agree, I totally agree. Turkey should be proactively looking at this and should figure out why this is good for Turkey, and, look, I come down on the side of those who are -- if you want more ambitious and optimistic about Turkey's future membership in the Union, but put that aside and try to figure out why this is really, really very good for Turkey and why this should be part and parcel of Turkey's logical -- logical getting closer to Europe.

I just want to make a comment on GMOs. You know, I've been dealing with this -- when I was the ambassador, you don't know how many hours I spent in St. Louis with Monsanto fighting and struggling. And I just want to say

that, this is one of the issues that cannot be taken off the table. I mean, frankly, this will be on the table, just like agriculture has to be on the table, and it's not one of those issues which we can just simply say, we can't figure out, let's take it off the table.

So, therefore, governments, regulators, and the industries have to be really, really more creative, more ambitious, and more tolerant to the regulations and culture of the other side than they have been so far. It's not going to happen that politics will push it down the throats of the legislatures. It's just not going to happen.

But I think it's reasonable to think that, on the one hand, European agriculture, and on the other hand, GMOs, will all be part of the debate and I don't think we should find an easy way out of this.

MR. MELTZER: Great. I might just add, actually, on the Turkey point. I think on the American side, Mexico and Canada, while not in a Customs Union, is very economically integrated by NAFTA. They're both also -- I mean, Mexico's got an FTA with the EU. Canada and the EU are hopefully close to finalize their FTA. So, I think there's also probably some thinking going on here about how those economies work and think through the dynamics in the context of a bilateral.

On, quickly, the ISDS point. You may know that in the Australia-U.S. Free Trade Agreement, ISDS was taken off the table for precisely the reasons you outlined, so there is some precedence there. Though I do want to say there's probably two reasons, even in the context of two economies with

advanced legal systems for including it. One is that, if this is about global standard setting, then I think the U.S. and EU want to think about the precedent that would set. I think that's an important point.

And there's also a political economy argument, which gets at this issue of the voice that foreign businesses have in each other's political systems, and when it comes to avoiding regulation which may be discriminatory and there are the non-discrimination norms in the investment commitments which sort of protect, essentially, foreign investors if they don't exactly have the same access and same ability to avoid these type of laws. So, there's a perspective there.

We've probably got time for one, maybe two more questions.
Here at the front.

MR. SAHAKYAN: Thank you very much. Arman Sahakyan from the European Institute. Thank you very much to the speakers for this wonderful presentation.

My question is in regards of China, as you both mentioned China in your speech. According to OECD statistics, China is going to be the first -- the biggest, largest economy in the world by 2016. So, given this geopolitical, geostrategic calculations of the U.S. and the EU, how do you think, from maybe one to ten, ten being the highest priority, how much of a priority do you think the EU and the U.S. give to counterbalancing Chinese advancement in economy?

And do you think that it would be possible in this pact to also put a clause of having third party countries to join into this pact later on if they abide by the standards? Thank you.

MR. MELTZER: And maybe one more, if there's one more question. This lady right here on the left.

MS. ELIAS: Thank you. Shira Elias with the Congressional Research Service. My question is also about shared global interests and challenges. I'm wondering how a negotiation or a successful conclusion of a TTP, I guess that's what it's being called now, how that might affect U.S. and EU ability to support democratic transitions in the Middle East. Both sides have pledged economic support for the region in the wake of the Arab spring and I'm just curious how this sort of negotiation might affect that. Thank you.

MR. MELTZER: Great. Thanks.

MR. SMITS: Okay. Well, first, on China, it's -- I think it's extremely important not to think or reason in terms of "us" and "them" or counterbalance. We have profited -- "we", the U.S. and EU -- we have profited enormously from Chinese growth, really enormously, and I think we shouldn't forget that.

So, it's not a question of "us" and "them". It is a question of getting them or attracting them into a system, a rules-based system, which we will all profit by. We were talking about level playing field, respect for the environment, et cetera, this all hopefully -- and I think there's an important -- as I started my speech -- it's a very important benchmark, if you like, standard setting initiative because if we are still the most important economic blocks in the world can pull this off, this will automatically have a beneficial effect on any others who want to join.

And talking about joining, yes, by all means, the sooner the better, and that, coming back to my first argument, the more comprehensive, the bigger the benefits.

And the same goes within the WTO for the plurilateral owned services, of course. That also you can run exactly the same argument.

Democratic change? Yes, well, simply the rule of law should not, of course, be limited to the way we do business. That's not the way that we would like to see the rule of law work. So, obviously there as well, without bogging down negotiations because we will not start negotiating on human rights issues. We will start negotiations on economic issues.

Obviously, they are intricately linked with anything to do with labor conditions, child labor, respect for the environment. So, obviously, it's part and parcel of that, and that is, I think, why the basic principle of, you know, rule of law, respect for human rights, human dignity, respect for the environment is a universal value.

MR. MELTZER: Thank you.

MR. GORDON: Would the professor want to say something, just briefly?

MR. MELTZER: Yeah, I mean, we're sort of running out of time.

MR. BERDEN: Thank you very much. I think there is one important (inaudible) with regard to China. If you look at trade figures, those could be slightly misleading. If you see, for example, that some of the largest multinationals in the Netherlands have their second biggest plans in China

exporting from China. The value added share of those exports is only a very small part Chinese, which is the last bit.

And even though we talk about the size of economies at country level, we should not forget the multinational activities that have moved into China through foreign direct investment from the U.S. and from the European Union. I think that's a very important element to keep in mind because that means Chinese economic growth directly benefits these multinationals with head offices in the United States and in European Union. Thank you.

MR. MELTZER: András, did you want to make --

MR. SIMONYI: Well, in China, just very briefly, as China starts to change and as the structure of the Chinese economy starts to change, as the products they want to sell on the world market start to change, they will simply have to start complying with the rules, regulations that we, if you want, the liberal market economies, have accepted. And I want to join some in saying, it's totally wrong to put the question -- this is not against China. This is -- you know, just get it out of your head. This is not aimed against China.

But China will have to consider and clearly understand something huge is happening across the Atlantic Ocean and this is going to, if you want, force certain rules upon the way they do business in the world.

I do think, since, you know -- two things. One, as we speak, there is a similar conference somewhere in Washington dealing with transatlantic security issues because that's another big debate. Why you cannot mix the two, and I want to be very clear that even if I say what we're talking about is an

economic NATO, but only in the sense that this can cement, this can be the glue across the Atlantic, but it's not a NATO, as such.

We, across the Atlantic, the alliance and those partners who are part of our -- the family around NATO, we also have to take into account, consideration -- or take into account the fact that something very, very important is happening across the Atlantic between our economies.

And then finally, what we are doing is we are reinforcing, we are recreating, we are reinventing the value systems that we stand for, and I want to be very, very clear about that. This really is, even if the nitty-gritties are so important, I think more importantly, this is about setting the standards for the values that we think the world should be run by in the foreseeable future.

So, therefore, human rights, the human values that we stand for across the board, will probably not be part of the negotiations because it's senseless, but the message really is that this is reinforcing the values that we stand for.

MR. MELTZER: Great. Well, this was certainly the beginning, I think, of what's going to be a very important initiative by some (inaudible) economic front, but I think what our conversation today has highlighted is going to be broader strategic and possible global significance of actually what comes out of this deal.

I want to thank our panelists for participating and their comments, in a very interesting and lively discussion.

(Applause)

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