

José Manuel Durão Barroso

President of the European Commission

STRENGTHENING THE TRANSATLANTIC ECONOMY

Business Forum
New York, 27 April 2007

Ladies and gentlemen,

Let me start by thanking the New York Stock Exchange, in particular the CEO, John Thain, for inviting me to speak to you. Since its merger with Euronext, creating the first transatlantic stock exchange, it has quickly come to symbolize the tight bonds between Europe and the US. I'd also like to thank the many organisations that helped organise this event with the NYSE.

I am sometimes told that, with globalisation and the rise of new economic giants in Asia, the transatlantic economy has no future.

I normally reply by pointing out that without the transatlantic economy, we have no future.

The fact is, the transatlantic marketplace is still the economic engine of the world. Collectively, the European Union and the US register more than \$3 trillion of commercial sales annually. Bilateral trade between the EU and the US accounts for 40% of *all* global trade. Fourteen million jobs on both sides of the Atlantic are dependent on these links. Our combined GDP accounts for an astonishing 60% of world GDP.

And after a few sluggish years, Europe's recent economic performance shows that we still know a thing or two about high performance engines.

Last year we enjoyed growth of 3% - the highest in six years. This year, according to our February Commission forecast, growth should hit 2.7% - higher than in the US.

Labour productivity growth in the euro area is also up, averaging 1% in 2006, compared to an annual average rate of 0.7% for the previous decade.

Of course a lot of this performance is cyclical in nature. But it has certainly been boosted by efforts to put our house in order, as we face up to the challenges posed by increasing competition from abroad, and demographic challenges at home.

This economic and structural reform programme - known in Europe as the Lisbon Strategy for Growth and Jobs - has seen the EU and its Member States pull together at all levels to cut red tape, unleash the energies of business and entrepreneurs, make our labour markets more flexible and secure, invest in research and innovation, and place our welfare systems on a firmer financial footing.

On the last point, attention has focused in particular on ensuring sustainability of pension and health systems, to cope better with the ageing of our societies. This has required some tough political decisions, but things are already moving in the right direction. Indeed, in some cases, sustainability is no longer at risk.

All this activity is focused squarely on two related goals: sustainable growth, and the creation of more and better jobs. And it is delivering results. The EU unemployment rate fell to 7.6% by the end of 2006, and we expect more than 7 million new jobs will be created up to 2008.

And we have been greatly aided by the success of the euro. Europe's single currency has contributed to price stability, shielded us from currency turmoil, fostered intra-EU trade and pushed down inflation. It has also contributed to greater fiscal discipline. In 2006, the euro area budget deficit fell to 1.6% of GDP, down from a high of 5.5% in 1993.

In summary, Europe is not only returning to healthy growth, but is increasingly assuming its responsibilities by contributing to the correction of global imbalances.

In the same vein, we are also assuming our fair share of responsibility in the fight against climate change, and efforts to improve energy security.

Most recently, in March, EU leaders agreed ambitious new objectives for 2020, which include a 20% cut in Europe's greenhouse gas emissions, with the commitment to go further if others do, and targets for renewable fuels and energy efficiency.

Ladies and gentlemen,

Of course, the obvious importance and continuing health of the transatlantic economy does not mean we should ignore the transformations going on around the world. Quite the opposite. But it is important to keep a sense of perspective.

For example, did you know that in 2005, Americans invested four times as much in Belgium as they did in China last year?

Did you know that US affiliates in Poland, Hungary and the Czech Republic – population 58 million – earned almost one and a half times more than US affiliates in India – population 1,200 million?

And this show of American confidence in our relationship is by no means one-sided.

Europe accounts for almost 70% of total US inward investment stock, and owns 75% of all foreign-owned assets. European affiliates employ nearly 300,000 people in New York alone.

So it is tempting to think that this is a relationship that can look after itself. That this is as good as it gets.

I disagree, for two reasons.

First, I am convinced that there is still enormous untapped potential in this transatlantic marketplace. Working together, the EU and the US can do much more to reduce remaining barriers. This will do a lot to boost growth, competitiveness, and jobs on both sides of the Atlantic.

But this will only happen if we recognise a hard fact: today, it is no longer tariffs, but non-tariff barriers and regulatory burdens which act as the biggest brake on the transatlantic engine. By further reducing unnecessary obstacles to trade and administrative burdens linked to different standards, we will do much to stimulate further economic growth.

The Commission is launching a study to address this potential in detail. But the OECD already estimated in 2005 that further transatlantic liberalization could lead to permanent gains in GDP per capita on both sides of the Atlantic of 3 to 3.5 %. So the stakes are high.

The second reason why benign neglect would be a mistake is that there are several issues which could prevent this healthy economic relationship from developing further. Insufficient regulatory understanding and trade security are good examples. If we ignore them, these problems will only increase.

Ladies and gentlemen,

It is this desire to harness the full potential of the transatlantic economy, and tackle head-on some of the problems that European and American businesses face when striving to unlock that potential, that have informed preparations for the EU-US Summit on Monday (30).

As in so many other areas, the EU and the US see eye-to-eye on this issue. When a resolution on 'strengthening the transatlantic market' was submitted to the US Senate in December last year, it attracted unanimous consent.

Clearly there is a political market for such action, and demand is high. I think the time has come for us to make a sustained political commitment to strengthen this giant, integrated marketplace.

That is why when President Bush, Chancellor Merkel and I sit round the table at the White House on Monday, we will sign up to a transatlantic economic integration framework.

This framework will set out a clear vision between two groupings which are the engines of the world economy. It will help us to shape and reap the benefits of globalization. It will add value to all the work we are already doing together. And it will provide the political will and continuity that has sometimes been lacking in the past.

It will also bring major stakeholders into the process, like legislators, businesses and consumers from both sides of the Atlantic. This should ensure greater momentum and a steady focus on results.

Top of the agenda in this framework, and in recognition of the nature of the obstacles we now face, will be addressing existing, unnecessary barriers posed by divergent regulations, and avoiding the emergence of new ones. This of course does not prejudice the right of each party to adopt measures to achieve legitimate policy objectives, like protecting consumers or our environment.

We will do this by reinforcing the existing transatlantic dialogue on regulatory co-operation. But we will also pay particular attention to regulatory co-operation in those areas which would benefit the most, like the automotive, medical services, pharmaceuticals and cosmetics sectors, to name just a few.

In addition to this, several 'lighthouse projects' have been selected, that have real relevance to transatlantic economic integration, and guide the way for future action. Both the European

Union and the United States are committing themselves to accelerate work on these projects, and are determined to see progress in time for next year's Summit.

The areas selected include - of course - trade security. But also financial markets, innovation and technology, investment, and intellectual property right enforcement.

I imagine our ambitions in the field of financial markets may be of passing interest to you, so let me focus on that.

As the worldwide consolidation of these markets continues apace, governments, legislators and regulators on both sides are faced with a stark choice – and one that is not, incidentally, limited to this area alone:

- stick to the existing patterns of crude reliance on heavy-handed national regulation, and watch businesses such as yourselves suffocate in a swamp of conflicting rules and duplication of oversight, or
- work together to develop new models of cooperation based on the three principles of mutual understanding, convergence on high quality principles and recognition of equivalent rules wherever they exist.

We have to do the latter. We are condemned to cooperate and we need to do this now.

So it is my hope that by 2009, we will jointly be in a position to recognise the equivalence of accounting standards between the EU and US. This will reduce costs and make it easier for companies to list themselves wherever they see fit.

It is my hope the EU and the US will quickly reach a point where we can rely on each other's auditing oversights' systems and avoid burdensome and costly duplicative work and even conflicts of law.

It is my hope that we will be able to look closely at how we regulate securities' markets in the EU and the US. We share the same goals: adequate investor protection and market integrity. If we find that these goals are effectively met on both sides of the Atlantic, we should reflect on the conditions that could allow the mutual recognition of our rules.

As an early harvest, and a sign of things to come, we will also soon sign a transatlantic air transport deal. It is no exaggeration to say that this will represent the biggest step in aviation liberalisation since the Chicago Convention in the 1940s.

This is just the first step. If we can sweep away remaining investment restrictions on US airlines and create truly free, transatlantic skies, we would generate more than \$20 billion of benefits for consumers and create 80,000 new jobs in the EU and the US.

Let me be very clear on one point: our efforts to unleash the full potential of the transatlantic economy does not mean we are giving up on the Doha Round of trade liberalisation talks. Bringing these talk to a successful conclusion is, and must continue to be, a top priority for both the EU and the US.

I can guarantee that on the European Commission side, we have done, and will continue to do, everything possible to bring these talks to a speedy and successful conclusion. We have moved very far. Now others must also move if we are to clinch a fair and balanced deal that benefits all.

A successful conclusion to the Doha Round could generate more than \$200 billion of economic gains annually, more than half of which would go to the developing world. Just as importantly, it would fully anchor China, India and other growing economies in the developing world into an open and rules-based global trading system. So there is a lot to play for.

I am convinced that this is not a zero sum game. Deeper transatlantic integration, far from weakening the multilateral trade environment, will actually benefit the whole international community.

It will make market access much easier for third countries, and illustrate to everyone the importance and effectiveness of the sound economic values which we hold dear. A clear and predictable regulatory environment. Free markets. Respect for property rights. Openness to investment.

Ladies and gentlemen,

Due to our shared history, Europe and the US enjoy deep bonds of kinship. The value we all place on freedom, democracy and the rule of law has made us natural partners for joint

action across a whole range of policy areas. Despite occasional differences, the rapidly changing world has encouraged us to tighten those links, and take this political co-operation to a whole new level.

Now it is time to deepen our economic partnership, and take the whole, vast and dynamic transatlantic economy to the next level as well.

Doing so will put it at the centre of everybody's vision of the future.

Where it belongs.

Thank you.