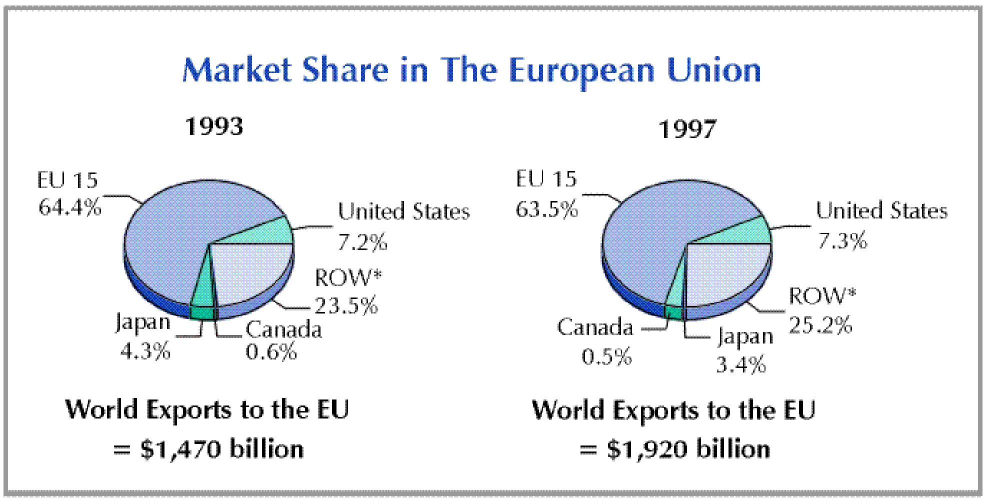
Europe

In Europe, the United States faces both a well-established, constantly evolving commercial relationship with the European Union and an emerging market with enormous potential in Central and Eastern Europe. The combined GDP of the United States and Europe is approximately $16 trillion, together accounting for nearly half of the value of all goods and services produced globally. It is not surprising that the United States and the European Union (EU) account for about half of all world trade. And with the negotiations which began earlier this year for the expansion of the EU into Central and Eastern Europe, the EU will represent an ever-growing slice of the global trade pie.

Although the United States has a long-standing relationship with Europe, we must jettison any notions that trade promotion and policy efforts vis-a-vis the EU can be set on automatic pilot. To the contrary, the EU is changing, and U.S. firms should be prepared to adapt to both an institutional deepening and a geographic widening of the European marketplace. On January 1, 1999, the EU will establish the European Economic and Monetary Union (EMU), and introduce the "euro" single currency in eleven of the current fifteen EU member countries. EMU will accelerate the economic convergence of member countries by easing cross-border trade within Europe. In addition, the EU will undergo a dramatic expansion of its membership, adding at least ten new member states (mostly from Central and Eastern Europe) of differing degrees of economic development to the current fifteen.



Source: IMF Direction of Trade * ROW = Rest of World

The rapidly changing character of Europe on all levels—economic, social, and political—presents new, unparalleled opportunities for U.S. firms to export to the "new" Europe as traditional market rigidities (e.g., labor, regulatory, currency rates) decrease. As American companies—particularly small firms—position themselves to take advantage of these changes, they will look to TPCC agencies for assistance and advice.

As a framework for understanding the importance of Europe and for setting forth an export strategy, we will examine three critical, sometimes contradictory dimensions of the relationship—Europe as marketplace, competitor, and partner. All three factors must play a part in any evaluation of opportunities and challenges in Europe and the world.

Europe as Marketplace for Large and Small Business: Giving U.S. Firms the Tools to Succeed

EU Market

The EU is a key overseas market with a Gross Domestic Product (GDP) of $8.1 trillion, second in size only to NAFTA's $8.8 trillion GDP. While the United States exported $141 billion in goods to the EU in 1997, representing 20 percent of worldwide U.S. merchandise exports (by value), trade is only one dimension of our commercial interest in the European market. In 1995, the last year for which complete U.S. and foreign affiliate data are available, U.S. affiliates in Europe produced $1.2 trillion of goods and services. Adding together U.S. exports and the overseas sales of U.S. affiliates shows that the stake of American firms in Europe is about three times larger than in Canada or Japan. With the launch of the euro, this market will become even more fundamental to the success of our small business exporters.

European Economic and Monetary Union (EMU) and the "Euro"

In May 1998, Europe prepared to enter the third and final stage of Economic and Monetary Union (EMU). EU heads of state voted to include Austria, Belgium, Finland, France, Germany, Italy, Ireland, Luxembourg, the Netherlands, Spain and Portugal in the first wave of EMU entry, with Sweden, Denmark and the UK "opting-out" for the time-being, and Greece failing to meet the qualifying criteria.

During the three-year transition period beginning January 1, 1999, companies and individuals throughout the "euro-zone" will be able to make payments electronically in either the euro or a national currency. In 2002, the euro currency will be introduced. During the interim period, conversion rates for the euro and the national currencies of EMU members will be absolutely fixed. In some euro-zone countries, arrangements have already been made for commercial banks to accept euros for all cashless transactions. Many bank and credit card accounts will show both euros and the national currencies. Some larger businesses in Europe have already announced that they will begin using the single currency at an early stage for both internal transactions and to pay and invoice their business partners. Many small businesses working with these companies may, therefore, be faced with invoices denominated in euros well before the end of the transition period. Ultimately, a sizable share of world trade transactions may be invoiced in euros.

The United States has consistently supported the postwar process of European integration because it contributes to regional stability, European unity, and free trade. We support EMU as a part of this process. Furthermore, EMU is expected to stimulate economic growth in Europe and promote a robust marketplace. The task of TPCC agencies will be to both prepare U.S. exporters for the challenges and apprise them of the opportunities that monetary union will bring. Challenges, especially for firms with operations in Europe or that already have European partners, may include the need to change financial systems, invoicing, accounting, information technology, and marketing approaches. Benefits for U.S. exporters, large and small alike, include lower transaction costs and easier cross-border (intra-EU) pricing, marketing and distribution. Price-competitive American firms should fare well as monetary union stimulates economic growth and the overall level of competition in Europe.

- TPCC agencies will mount a nationwide educational campaign to ensure that American exporters are aware of the implications EMU has for their businesses, ranging from transitory technical challenges to new strategic opportunities. As a first step, the Commerce Department has launched a series of seminars around the country geared towards small and medium-sized exporters. In addition, the Commerce Department will soon make available a web site on EMU which consolidates U.S. Government information sources on Europe and includes links to other useful sites (to be accessible through **http://www.mac.doc.gov**).

- The Commerce Department will focus its resources, such as the regionally-focused Showcase Europe trade promotion program, on increasing the participation of American companies in opportunities resulting from the new market dynamics in Europe.

Central and Eastern European Market

Central and Eastern Europe represent much of the unexplored potential for market growth in Europe. The countries which have signed association agreements with the EU represent almost 105 million people with a combined GDP of over $330 billion. U.S. bilateral trade with these countries now totals approximately $7 billion and is expected to grow substantially over the medium- to long-term. Countries which have not yet signed association agreements with the EU represent another 24 million people and a total GDP of almost $40 billion. While our bilateral trade with these countries is still limited, opportunities are expected to expand as economic and political reforms are carried out.

- From January 1, 1997 to June 30, 1998, Ex-Im Bank authorized over $2.5 billion in U.S. export financing to Central and Eastern Europe, including over $1 billion for Russia alone. Other active markets have included Croatia, Ukraine, Uzbekistan and Turkmenistan. During 1997, the Bank opened for coverage in Macedonia and in early 1998, the Bank upgraded the risk rating for Bulgaria. Also, the Bank is pursuing parallel financing structures consistent with other multilateral disciplines with its counterpart export credit agencies in Central Europe.

- The Central and Eastern Europe Business Information Center (CEEBIC) at the Department of Commerce combines high-technology information dissemination and individualized business counseling. CEEBIC also helps U.S. companies overcome obstacles impeding their activities in the region. CEEBIC's weekly e-mail service, the *Southern Europe Business Brief*, will continue to provide the latest project opportunities and market information. And the Bosnian/Balkan Reconstruction Initiative will work to involve U.S. companies in specific reconstruction projects.

- Our embassies will continue to work together with local American Chambers of Commerce to urge governments to implement fair and transparent laws relating to government procurement, infrastructure development, and privatization.

European Union Enlargement in Central and Eastern Europe

With at least 10 Central and East European countries slated to join the EU in the next century, this region is important not just as an emerging market with tremendous growth opportunities, but also as part of a "new" Europe. The U.S. Government fully supports and encourages EU enlargement into Central and Eastern Europe. U.S. businesses will profit from enlargement as business conditions improve through harmonization of commercial laws and regulations. This will create a familiar, predictable environment in which U.S. companies can compete.

However, one area in which U.S. commerce could be adversely affected is in the level of tariff rates which U.S. products face vis-a-vis products of their EU competitors. Since 1991, the EU has signed association agreements with Poland, Hungary, the Czech Republic, Slovakia, Romania, Bulgaria, Latvia, and Estonia. These agreements grant preferential tariff treatment to EU products and establish schedules for reducing EU preferential rates for non-agricultural products (which will eventually reach zero). For U.S. products, higher most-favored-nation (MFN) rates are maintained. It is difficult to assess the overall effect on U.S. trade of these preferences and of the reorientation of the Central and Eastern European trade from East to West. TPCC agencies have had some success in persuading Central and Eastern European countries to lower individual MFN tariff rates in response to U.S. company complaints.

However, we believe that accession will ultimately enhance, not harm, our commercial interests. The problem of tariff preferences largely will be resolved once the countries become full members and adopt the EU external tariff, which is generally lower than their current MFN rates. We have begun an interagency process of consultations with the EU applicant countries of Central Europe aimed at resolving problems of tariff preferences and raising awareness of the effects of EU accession.

- The U.S. International Trade Commission is currently investigating whether these tariff preferences have adversely affected U.S. commerce. Where such effects are identified, TPCC agencies will pursue talks with the EU and Central European governments to eliminate or mitigate harm to U.S. commercial interests.

TDA Pioneers Commercial Development in South Balkans

When TDA kicked off the South Balkans Development Initiative in May 1996, American firms were not pursuing infrastructure business in Albania, Bulgaria and Macedonia. Today, there is a cadre of dedicated business pioneers committed to developing the region's commercial potential. The building of a three-nation transportation corridor has helped create a new market greater than the sum of its parts. And bringing the South Balkans into the eastward expansion of U.S. commercial horizons will further boost U.S.-European trade. The decision by the State Department to use Support for Eastern European Democracy Act funding in this creative fashion has been a plus for the countries and for U.S. companies.

Big Emerging Markets: Turkey and Poland

Turkey was designated a BEM because of its large population of over 60 million people, rapidly growing consumer class, strategic significance and location, and its high growth rate among the OECD countries. In Poland, U.S. exports are expected to exceed $2 billion by the year 2000. With a population of 39 million people, Poland is expected to experience continued robust economic growth (6.3% annually over the last four years) and a stable political environment.

- TPCC agencies will work closely with the recently inaugurated U.S.-Turkey Business Development Council on recommendations for government action, addressing issues such as investment constraints in Turkey (especially in the energy sector) and improved intellectual property rights protection.

- We will continue to resolve key market access barriers for companies already active in Poland; assist U.S. companies through the Warsaw and Krakow offices of the Commercial Service and the Central and Eastern Europe Business Information Center in Washington, D.C.; and provide effective advocacy support on major projects.

Investment in Turkish Power Sector to Yield U.S. Exports

OPIC approved $150 million in OPIC political risk insurance for Dearborn, Michigan-based CMS Energy Corporation's and Charlotte, North Carolina-based NationsBank, N.A.'s investment in a privatized electrical distribution network in Turkey. The project, an important part of the Government of Turkey's privatization program, will introduce dramatic efficiency and cost improvements. Additionally, the project is expected to use about $50 million worth of American equipment and services.

Showcase Europe

Commercial Service offices in Europe have attuned their business support services to meet both the needs of U.S. exporters and of American firms already operating in Europe by developing sectoral and regional commercial strategies. They are encouraging U.S. firms to move into additional European markets.

- Over the coming year, Showcase Europe will concentrate on eight industry sectors—aerospace, automotive parts, energy and power generation, environmental technologies, franchising, medical and pharmaceutical, telecommunications and information technologies, and travel and tourism. For each sector, the Showcase Europe offices will support high profile trade events and conduct industry training sessions for their foreign service national staff. Showcase Europe's website is **http:\www.sce.doc.gov**.

Europe as Competitor: Meeting the Challenge

Our strategy for dealing with European competition must take on a global perspective. U.S. firms compete with European competitors everyday, everywhere. The competition can be particularly fierce for major projects in emerging markets. While for the large part, these competitions proceed without government involvement and according to accepted rules of engagement, European governments are becoming increasingly involved in their companies' commercial activities. TPCC agencies must continue to keep close tabs on the practices of our competitors and attempt to counter these efforts as appropriate.

Advocacy

Advocacy in Europe will help U.S. firms overcome non-transparent government procurement processes. In competitions around the world, TPCC agencies will continue to craft timely, aggressive and targeted advocacy strategies, including coordination between trade financing agencies and Commerce's Advocacy Center.

- TPCC agencies will continue to carefully scrutinize the competitive practices of our European competitors in competitions around the world and expand the dissemination of information produced by Showcase Europe and CEEBIC to alert all relevant agencies to new or potential advocacy cases.

Countering Foreign Expenditures to Influence International Standards

As standards, conformity assessment, and measurements play an increasing role in international trade, the EU is making a strong effort to influence the adoption of standards used in developing markets. The Europeans, primarily Germany, utilize extensive training programs, donation of equipment, and placement of advisers in developing countries. If successful, the Europeans will obtain control of the development and application of standards in these markets, which will in turn, reduce access by non-European nations.

- TPCC agencies will develop a strategy to address this growing problem and consider possible responses to European technical assistance efforts. In the meantime, TPCC agencies will continue monitoring our trading partners' compliance with the WTO Agreement on Technical Barriers to Trade and promoting a common understanding of the benefits and obligations of the Agreement.

Europe as Partner: Engaging Europe on Bilateral Trade

While it is essential that we be prepared to compete with Europe, it is also critical that we engage Europe as a vital partner in lowering bilateral obstacles to trade and in liberalizing the multilateral trading system. Experience has shown that we cannot successfully promote a global marketplace on our own. We must have partners in that endeavor. Every advance in the world trading system over the last fifty years has been the result of joint U.S.-European agreement and initiative. Since the end of World War II, Europe and the United States have shared a vision of an increasingly open world trading system. While the support of our other trading partners is necessary, U.S.-EU agreement has often provided both the critical starting point and the catalyst for global cooperation. The last couple of years alone are proof that when we agree on objectives, we achieve results. The Information Technology Agreement, the Telecommunications Services Agreement, and the OECD agreement to criminalize bribery of foreign public officials could not have succeeded without U.S.-EU consensus and cooperation.

U.S.-EU Transatlantic Economic Partnership (TEP)

At the May 1998 U.S.-EU Summit, President Clinton and his EU counterparts issued a joint statement announcing the TEP. The TEP will have three components: (1) negotiations to reduce barriers to bilateral trade in services, industrial goods, and agricultural products; (2) cooperative efforts in the World Trade Organization (WTO) and other international organizations to reduce or eliminate barriers that hinder international trade and capital flows; and (3) efforts to enhance the transatlantic dialogue between business, non-governmental organizations, and governments on trade, investment, and other matters. The TEP will be implemented in a transparent manner that places a high priority on obtaining the views of business, labor, environmental, and other interested non-governmental constituencies.

The bilateral trade and investment component of the TEP will address trade barriers, particularly unnecessary regulatory impediments, that hinder transatlantic trade in such sectors as electronic commerce, services, agricultural products, government procurement, and intellectual property rights (IPR), while seeking to advance shared labor and environmental values. U.S. and EU efforts to increase their cooperative efforts in appropriate multilateral organizations will encompass such areas as services, agricultural goods, industrial tariffs, IPR, trade facilitation, electronic commerce, government procurement, trade and the environment, and support for the observance of internationally-recognized core labor standards.

- As a first step toward implementing the TEP, U.S. government agencies will work with the EU to develop an action plan and timetable for achieving results.

The Transatlantic Business Dialogue (TABD)

A major factor driving the reduction of commercial obstacles in the Transatlantic market is the TABD, a unique government-business dialogue. *The TABD is the single most important channel through which business can help shape the bilateral trade agenda of governments.* The TABD's constant pressure and technical expertise have been the key to the elimination of a number of barriers to transatlantic commerce, and was instrumental in the signing of the Mutual Recognition Agreement (MRA) at the U.S.-EU Summit. The original thesis has proven true: when the U.S. and EU business communities agree to a particular action in their mutual interest, governments are much more likely to act—and act more quickly.

Government response to TABD recommendations has been impressive. Since the last TABD conference in Rome, December 1997, almost three dozen recommendations have been or will soon be implemented. These include an MRA implementation report; inclusion of a regulatory component in the ITA II Agreement; and the beginning of a follow-up process to the United States' signing of the UN Economic Commission for Europe Working Party 29 Agreement on Global Technical Regulations for Wheeled Vehicles. The new Sub-Cabinet TABD follow-up group ensures that all recommendations receive senior-level government consideration. Not all will be implemented as there are some policy disagreements with our business counterparts. Additionally, some recommendations require Congressional action, are housed in a multilateral forum, or require further TABD clarification. Nonetheless, we have demonstrated that this model for strengthening our bilateral commercial relations works.

Small businesses are also part of the TABD through the Transatlantic Small Business Initiative (TASBI). Over the past two years, the Commerce Department has worked with the European Union on a number of activities such as supporting six TASBI events and assisting nearly a hundred U.S. small and medium-sized firms in their efforts to find European partners. These activities have led to 30 transactions—20 distributorships, eight joint ventures, and two licensing agreements.

- TABD has indicated it will continue its trademark building-block approach, using specific, pragmatic recommendations as stepping stones to a more transparent transatlantic commercial environment. Through the TABD, business is expected to continue focusing on regulatory cooperation, high technology issues, and electronic commerce.

Standards: MRA and Harmonization Efforts

The U.S. and European business communities have consistently told U.S. and EU government officials that technical regulations, not tariffs, are the main impediment to trade across the Atlantic. These differences in regulations include differing standards and testing and certification requirements. At the May U.S.-EU Summit in London, the persistent pressure of private business on both sides of the Atlantic came to fruition when officials formally signed the MRA. This Agreement liberalizes market access for more than $30 billion of U.S. exports and close to $50 billion of two-way trade. Industry estimates the overall cost of market entry will fall by $1 billion, about half of which will accrue to U.S. exporters. The TABD continues to advocate a new transatlantic regulatory model based on the principle “approved once, accepted everywhere in the New Transatlantic Marketplace.” The goal is to eliminate duplication and the incompatibility of standards and regulatory requirements on both sides of the Atlantic. Also, the EU continues to harmonize technical requirements for products, through its CE (Conformité Europeanne) mark program (which sets minimal EU product standards), greater reliance on ISO 9000, and movement toward required metric labeling. All of these efforts will help U.S. exporters adapt to a more integrated European market.

- In order to advance the potential for developing the transatlantic agenda, the U.S. and EU will consider additional MRAs in a number of areas.

- The U.S. and EU will seek further harmonization of standards in sectors related to tires, pharmaceuticals and medical devices, including possible harmonization of forms and documents required by regulators.

- One example of efforts currently underway is the progress made toward international automotive standards harmonization. In June this year, the United States became the first signatory to the UN/ECE WP29’s new Agreement on Global Technical Regulations for Wheeled Vehicles, beginning an official process which could lead to the development of truly global automotive safety and environmental standards and regulations.

Improving Regulatory Transparency and Predictability

GMOs—Despite European Commission approval in 1996-1997 of several agricultural and food products that contain genetically modified organisms (GMOs), the products still face lengthy and unpredictable approval processes. The problem is intensified as new products are introduced and as further procedural and scientific steps are added to an already complex process. A major concern of the United States is that the process has become highly politicized. Several products have been under review for over two years. And even when products are approved, they may face market access problems such as the GMO bans imposed by Austria and Luxembourg.

- Establishing closer regulatory cooperation between the U.S. and EU on the approval process of GMOs will be a focus of the Transatlantic Economic Partnership.

SRM Ban—The EU's SRM (Specified Risk Materials) ban threatens to block billions of dollars in U.S. trade in pharmaceuticals, pet food, and other animal tallow-derived products. The EU has delayed implementation of the SRM ban until January 1, 1999 in the hope that it can find a means of controlling the spread of BSE (mad cow disease) without disrupting trade.

- TPCC agencies will work to ensure that the EU successfully revises its SRM legislation by January 1, 1999 to take into account existing scientific knowledge concerning the spread of BSE to humans and the BSE-free status of the United States.

PVCs—The U.S. Government is concerned over a pending regulation developed by the European Commission against the use of Polyvinyl Chloride (PVC) in certain products. In 1997, the Commission engaged the Scientific Committee on Toxicity, Ecotoxicity, and Environment to evaluate the potential impact on children's health of toys containing PVC softeners (phthalates). The consensus of the study was that there was too little evidence to warrant action at this time. However, some member states favor a complete ban on all toys containing PVCs. Such a ban would impact a wide range of products including medical devices and other U.S. exports.

- TPCC agencies will provide information on U.S. standards and press the Commission to refrain from actions without scientific basis. TPCC agencies will raise this issue with senior European Commission and EU member state officials until a resolution is found.