Statement
of the
U.S. Chamber
of Commerce

ON: The Eurozone Debt Crisis and Implications for the United States

TO: Hearing of the House Financial Services Subcommittee on International Monetary Policy and Trade

BY: Mr. Peter Rashish, Vice President for Europe and Eurasia, U.S. Chamber of Commerce

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The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 70 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business manufacturing, retailing, services, construction, wholesaling, and finance — is represented. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 115 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross section of Chamber members serving on committees, subcommittees, and task forces. More than 1,000 business people participate in this process.

Thank you Chairman Miller, Ranking Member McCarthy, and distinguished members of the House Financial Services Subcommittee on International Monetary Policy and Trade. My name is Peter Rashish, and I am Vice President for Europe and Eurasia, U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world's largest business federation, representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

The transatlantic commercial relationship is by far the largest in the world, with the United States and the European Union (EU) surpassing $4.3 trillion in trade, investment and sales by foreign affiliates of companies in one another's markets. Total U.S. exports to the EU of goods and services amount to $414 billion or about 22 percent of U.S. exports. U.S. companies have over $1 trillion invested in the European Union. In Ireland alone, the stock of U.S. FDI totaled $165 billion at the end of 2009 — more than the U.S. total for China, India, Russia, and Brazil combined. EU investment in the United States supported 3.6 million jobs in 2008. European investment in California alone supported 287,000 jobs, while its investment in New York supported 255,300 jobs. Together the United States and the EU account for over 54 percent of world GDP and 63 percent of the global stock of inward foreign direct investment and 73 percent of outward FDI.

These figures make it plain that the fate of the U.S. economy is intimately entwined with the fate of the European Union and the Eurozone. Because of the deep level of integration between our two economies, we will sink or swim together. There is no question that the unraveling of the Eurozone would not only have severe economic consequences for Europe, but for the U.S. economy as well.

Capital formation and liquidity on both sides of the Atlantic is one imperative for strong bilateral economic growth. While it is clear that the sovereign debt crisis is creating pressures on the financial services sector, there are a number of important issues below the surface that could harm the ability of businesses to tap the liquidity they need to operate and grow. With derivatives, a failure to allow corporate end-user exemptions from clearing and margin will either expose American and European businesses to more risk, or force derivatives trading to be concentrated in Asia. Similarly, a failure to address the indemnification issues for swap data repository institutions could lead to a balkanization of regulatory access to swap data on both sides of the Atlantic. At home, actions such as the Volcker Rule which are not coordinated with the European Union could lead to an un-level playing firm for U.S. firms.

The collapse of the Eurozone would destabilize fragile financial systems and also mean the end of the common currency and the efficiencies it has brought to the European market — lower inflation, interest rates, and transaction costs. The end of the Eurozone would also likely lead to the disintegration of one of the European Union's crowning achievements — the single market enacted in 1992 — as member states seek to protect their firms and shelter their economies from the effects of competitive devaluations by weaker countries leaving the common currency. Without the single market and its "four freedoms" of movement of people, goods, services, and capital, not only would Europe's economy suffer but U.S. companies would no longer be able to benefit from operating across a barrier-free EU internal market just as Europeans firms do.

It is clear that the failure of Europe's leaders to find a lasting solution to the crisis in the Eurozone would put at risk the prosperity that the United States derives from its commercial relationship with Europe in terms of economic growth, exports, and jobs. It is also true that while Europe's political commitment to finding a solution is strong, it is struggling to find the right combination of financial and monetary policy tools that can contain financial contagion, shore up the banking system, and rein in fiscal deficits while boosting economic growth. Without economic growth, no amount of budgetary austerity or financial rescue programs will provide a long-term solution to Europe's economic woes.

Where can Europe find the economic growth it needs, which would ensure that the United States continues to reap the enormous commercial benefits from its trade and investment relationship with the European Union?

One avenue is for European Union member states to pursue structural reforms of their economies that would liberate growth — for example, lifting barriers to entry in the services sector (including retail, the professions, logistics), creating more flexibility and mobility in labor markets, and reforming pensions policies. These kinds of barriers exist in both indebted countries and more financially stable countries in the Eurozone, so reforms could benefit a wide swath of the European economy and open up significant new opportunities for U.S. firms.

Another path is for Europe to invigorate its push to complete its single market. While most barriers to trade across the EU have fallen, an important number remain in the services sector. The creation of the single market has led to a surge in intra-EU investment — from €500 billion in 1994, two years after its creation, to €4.5 trillion in 2007. This internal dynamism has been a key source of the EU's economic growth, and the elimination of the remaining barriers in its market would have major benefits for its economy — and for ours.

There is, however, one area that until now has been neglected as a source of increased economic growth in the EU and, for that matter, in the United States — the trade relationship between the two commercial partners. If the two transatlantic economic powers want to inject more dynamism into their economies in a non-inflationary way, there is one quick step they should consider: agree to eliminate all tariffs in transatlantic trade.

While tariffs are low between the United States and the EU, because of the enormous size of the economic relationship, even small steps can yield significant gains in prosperity. According to a report by the Brussels-based European Center for International Political Economy (ECIPE), a successful "Transatlantic Zero" tariff-elimination initiative would increase combined U.S.-EU GDP by $180 billion within five years. That is more added growth than either would receive from the completion of the

Doha Round of multilateral trade talks.

While the Doha Round is facing serious obstacles to its completion, a "Transatlantic Zero" deal could be agreed quickly as the kinds of issues that have held up bilateral trade pacts in the past — social, labor, and environmental standards — should not be a factor between the United States and the EU. Since one-third of transatlantic trade is between branches of the same firm, eliminating tariffs on that trade would cut costs for both U.S. and European companies and make them more competitive in global markets.

Longer term, the United States and the EU should be ambitious and not stop at eliminating tariffs. They should aim to open up their services markets to each other, create a single investment area, and pursue compatible regulatory regimes. Such an initiative does not have to be a traditional free trade agreement, based on a single undertaking, which could take years to complete if progress in one area is dependent on how far negotiators have gotten in another. But to avoid the unfulfilled solemn declarations of the past, the United States and the EU should commit themselves in a legally binding way to the achievement of a barrier-free transatlantic market.

On November 28, the United States and the EU will hold a summit meeting in Washington in which President Obama will welcome EU Council President Van Rompuy and European Commission President Barroso. An announcement at the summit of a bold transatlantic initiative for jobs and economic growth, including the elimination of tariffs on bilateral trade, would inject a sorely needed sense of confidence into both the EU and the U.S. economies and, once successfully negotiated would produce significant economic benefits to both sides.

A transatlantic trade agreement would not in itself free the EU and the Eurozone of the task of finding lasting solutions to the current crisis. But it would create prospects for growth in Europe without which the crisis will be likely to endure.

The U.S. Chamber of Commerce looks forward to working with the members of the Subcommittee to seek the full benefits of the transatlantic economy for American workers and companies. Thank you very much.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	**2. Organization or organizations you are representing:**
Peter Rashish	U.S. Chamber of Commerce
3. Business Address and telephone number:	
[redacted]	
4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	**5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?**
☐ Yes ☑ No	☑ Yes ☐ No
6. If you answered ,yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.	
Please see attached document.	
7. Signature:	

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Question 6: If you answered yes to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.

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