TESTIMONY OF
UNDER SECRETARY ROBERT D. HORMATS

TO THE SENATE BANKING COMMITTEE
FEBRUARY 16, 2012

ON EXAMINING THE EUROPEAN DEBT CRISIS
AND ITS IMPLICATIONS

Thank you Chairman Johnson and Ranking Member Shelby, for inviting me to testify today on the European debt crisis, and its implications for the United States and our relationship with Europe.

When then-candidate Barack Obama spoke in Berlin in July 2008, he stated that one of the priorities of his presidency would be to re-establish strong trans-Atlantic relations. Citing the daunting political, security and economic challenges of the 21st century, he stressed then that "America has no better partner than Europe."

In the more than three years since, and despite discussion in the media about where Europe fits in the United States' global framework and speculation that Europe is turning inward as it deals with its domestic issues, the reality that President Obama articulated in Berlin has not changed. Europe is -- and remains -- America's partner of first resort and its staunchest ally. The strategic alignment between the United States and Europe, rooted in shared history and values, has never been closer in addressing both international threats and internal challenges.

America, since the days of Presidents Truman and Eisenhower, and Secretaries Marshall, Acheson and Dulles has recognized that a united and prosperous Europe is of enormous importance to the United States. And we have recognized, since the days of Jean Monnet and Robert Schuman, that closer economic integration in Europe was an essential underpinning to a stronger Europe and its ability to be a robust ally. And we understood that a prosperous Europe was important to a prosperous America. That was true in the 1950s when we supported the Marshall Plan, and it is today.

In Libya, NATO allies came together with Arab and other partners to support the Libyan people and prevent a catastrophe. In Afghanistan, with nearly 40,000 European troops on the ground alongside our own, we have built and sustained NATO's largest-ever overseas deployments. And we will continue to support the Afghans as they assume full responsibility for their own security by the end of 2014.

On Iran, along with our European allies, we share a deep and increasing concern about unresolved issues and Iran's continued refusal to comply with its international nuclear obligations. We remain committed to a dual-track policy that uses pressure to urge Iran to engage seriously on its nuclear program.

And the strength of this alliance with Europe depends heavily on the health of our economies. The statement of the European Council on January 30, 2012, clearly points to a renewed focus on jobs and growth, which provides new opportunities for U.S. – EU trade, investment and science and technology cooperation for our mutual benefit.

That is not to say that there are no differences across the Atlantic. But the reality is that we have essentially the same central objectives and are working on them together around the world.

Today, I'd like to comment on this reality in two areas:

First, our transatlantic work towards a common agenda of economic recovery and growth. This includes strengthening transatlantic trade and investment ties that reinforce our mutual recoveries, bringing emerging powers into the international rules-based system, and reorienting the global economic architecture for 21st century challenges; and

Second, our work together in addressing the global challenges that confront us in Afghanistan, Iran, the Middle East and North Africa, and elsewhere.

Economic Recovery Through Trade and Job Creation

Today's hearing is focused on the Eurozone crisis -- and for good reason. We have a huge stake in the health and vitality of Europe's economies. European growth is important both for the global economy and for creating and sustaining jobs in the United States.

To put this in perspective, the value of United States goods and services exports to the European Union is about five times the value of our exports to China. Trade flows between the United States and the EU exceed $2.7 billion per day.

In addition to the steps the EU has taken to resolve the debt and banking crisis, which Under Secretary Brainard has just discussed, we also have seen a commitment, as evidenced by the results of the EU Summit on January 30, to address the current economic challenges not only through fiscal consolidation, but also by facilitating job creation and putting in place measures to assist member states in finding a path back to economic growth.

There is a lot more hard work ahead. And there are many difficult choices to make. But our European partners have laid a solid foundation on which to build, and we appreciate the enormous efforts the EU has taken to regain its economic footing.

The Obama Administration is committed to expanding and deepening our economic relationship with Europe. This will help both us and our European allies sharpen our competitive edge in the global economy, and achieve our domestic objectives for economic growth and job creation. Secretary Clinton has said, "We need to forge an ambitious agenda for joint economic leadership with Europe that is every bit as compelling as our security cooperation around the world." I would like to outline for you how we at the State Department are working to expand trade and investment relations with Europe – in order to support jobs and growth on both sides of the Atlantic.

Transatlantic Economic Council and Regulatory Cooperation

The business community, consumer organizations and other stakeholders in the United States and in Europe have also been an active and vocal constituency in support of the Transatlantic Economic Council, or TEC. The TEC, established in 2007 and led by the White House and the European Commission, engages our most senior economic policymakers in joint work to promote economic growth and job creation on both sides of the Atlantic -- in particular by addressing regulatory barriers and fostering innovation.

As tariffs have fallen in recent decades, non-tariff measures or "behind the border" barriers to trade and investment have come to pose the most significant obstacles to our trade. Regulators in both the EU and the United States aim essentially for the same strong protections for the health and safety of our citizens, for our environment, and for our financial systems.

But differing approaches to regulation and to the development of standards can create barriers and slow the growth of trade and investment. Reducing unnecessary differences can create opportunities.

One way we are seeking to minimize the impact of unnecessary regulatory divergences on trade and investment is to examine closely our respective regulatory processes, and to try to identify ways to make them more compatible and accessible. The TEC and the U.S. - EU High Level Regulatory Cooperation Forum, led by OMB, have spurred new discussion on our respective approaches to risk analysis, cost-benefit analysis, and the assessment of the impact of regulation on trade.

Among other accomplishments, one of the highlights of the November 2011 TEC meeting was arriving at a comprehensive work plan on electric vehicles and associated infrastructure, in cooperation with the U.S.-EU Energy Council, business, standard-setting bodies, and scientists on both sides of the Atlantic.

A key component of this work plan is a decision to establish "interoperability centers" or living laboratories, which will allow scientists from both sides of the Atlantic to share data, equipment, and testing methodologies. This in turn should set a foundation for compatible approaches and regulations in both markets and lead to interoperable e-cars and related infrastructure, such as charging stations and smart grids.

While we have a common purpose on electric vehicles, success is by no means assured. It will depend heavily on the work that is done in the private sector to prioritize and develop the standards adopted for and applied to these new technologies. The standards-setting process is very complex with vital roles for government, business and standard-setters.

If the EU and the United States can together promote the creation of compatible, high quality, transatlantic standards in a variety of sectors or product areas in the short-to- medium term, our countries can encourage other nations to adhere to them and reduce the clutter of disjointed, unilateral standards that would impede trade and serve as protectionist devices.

Businesses then will be able to deploy technologies more effectively and more quickly across the globe, where demand for these products will only grow over time, supporting our shared desire for new sources of jobs and growth.

Additionally, common transatlantic approaches to regulation can serve as a model for other nations, in particular Russia, China, Brazil and India. Together we can provide incentives for others to embrace science-based strategies and approaches, working toward regulatory convergence and enabling access to markets.

This is an important point. Many countries don't share our regulatory principles and, through regulation, try to make our companies less competitive in their markets or even try to shut them out.

The United States and the EU can both benefit if we work together to promote the adoption in third countries of market principles and internationally-accepted rules governing trade, finance, intellectual property, and investment. Better economic policies in third countries will help ensure fair competition and market access, increasing opportunities to generate exports and jobs in the United States and Europe.

U.S.-EU High Level Working Group on Jobs and Growth

At the U.S.-EU Summit in November 2011, President Obama and EU leaders pledged to make the U.S.-EU trade and investment relationship even stronger. They called upon the TEC to create a High Level Working Group on Jobs and Growth, co-chaired by the U.S. Trade Representative Ron Kirk and EU Trade Commissioner Karel De Gucht.

The purpose of this group is to identify and assess options for strengthening the transatlantic economic relationship in areas including, but not limited to: conventional barriers to trade in goods; barriers to trade in services and in investment; opportunities to reduce or prevent unnecessary non-tariff barriers to trade; and enhanced cooperation on common concerns involving third countries.

All options are on the table. USTR has had initial consultations with EU counterparts and is seeking input from all stakeholders, including Congress, as it begins its work. Several major private sector organizations have issued studies or reports that make compelling arguments for an ambitious agenda in this area.

Economic Statecraft

In October 2011, Secretary Clinton announced her vision of Economic Statecraft as a central pillar of U.S. foreign policy. An important part of that is our economic relationship with Europe. That is, how we use the tools of diplomacy abroad to support trade and the rights of U.S. investors, leverage the strengths and expertise of the U.S. private sector in our economic engagement overseas, and use diplomacy and our overseas presence to grow our economy at home by attracting foreign investment to the United States.

We have established an Economic Statecraft Task Force to elevate economic and commercial diplomacy goals and to ensure that we have the right people, support tools, and engagement platforms. The Task Force covers four principal areas of work: human capital; internal tools; external engagement; and policy opportunities.

We are doing much of this work already, especially at our overseas posts, to support such programs as the National Export Initiative and Select USA, which promotes job-creating foreign investment in the United States. The State Department puts special emphasis on support for entrepreneurship. Under the Secretary's Economic Statecraft Initiative, we will scale up our efforts.

Some successes from recent advocacy include: Volkswagen's recent $1 billion manufacturing plant in Chattanooga, and Boeing's sale of 90 aircraft to Russian airline companies in 2011. In April 2011, helicopter producer Sikorsky won a contract worth up to $1.3 billion, to co-produce utility helicopters in Turkey.

Beyond advocacy for specific business deals, we are also working to level the playing field for U.S. workers and businesses in Europe and around the world, including in the agriculture sector. The volume of U.S. agricultural exports to the EU is strong and growing. Our 2011 agricultural exports to the EU were valued at $9.5 billion, up 8.2 % from the previous year. USDA estimates that every $1 billion in U.S. agricultural exports supports about 8,400 American jobs across a variety of sectors. We at State want to help push those numbers even higher.

Business is telling us there is more we can do to help them grow in an increasingly challenging world – and we at State want to exceed their expectations. On February 21-22, Secretary Clinton is inviting 200 representatives of U.S. business support organizations and the private sector to participate in the Department's first ever Global Business Conference. This is part the Department's effort to increase engagement with the private sector and support U.S. business.

We at State want to help push those numbers even higher. Business is telling us there is more we can do to help them grow in an increasingly challenging world – and we at State want to exceed their expectations. On February 21-22, Secretary Clinton is inviting 200 representatives of U.S. business support organizations and the private sector to participate in the Department's first ever Global Business Conference. This is part the Department's effort to increase engagement with the private sector and support U.S. business.

Global Challenges

We continue to work cooperatively with Europe to address the challenges that confront us both around the globe. Slower growth and tighter budgets in Europe could have an impact on some of our foreign policy objectives, but we are actively searching for more opportunities to leverage our individual and collective resources to advance our shared goals. Whatever happens on the financial and economic front, our foreign policy message has been consistent: It is important that transatlantic partners continue to dedicate resources to key priorities, and maintain critical deployments, both military and civilian. Reduced outlays overall should not mean reduced engagement in critical parts of the world.

Europe is an indispensable partner in promoting peace and prosperity through development assistance. The EU and its member states account for over 55% of global net Official Development Assistance to developing countries, with aid from the fifteen wealthiest EU member states rising by 6.7% in 2010 to just over $70 billion.

The EU and its member states have taken the lead on post-conflict aid operations in Liberia, Burundi, the Democratic Republic of the Congo, Sierra Leone, Darfur and Chad. The EU has also taken on lead roles in the democratic transitions occurring in its own neighborhood, in Libya and Tunisia and other transition countries in the Middle East and North Africa region.

Defense spending faces continued pressure in Europe. The Secretary of Defense told the Allies last fall that "we are at a critical moment for our defense partnership." Overall, defense spending in Europe has decreased during the past decade, but Allies are committed to keeping NATO strong through collaborative capabilities acquisitions called "Smart Defense."

Despite tight budgets, NATO allies have a strong common interest in meeting our collective security obligations and building the capabilities needed to meet 21st century security challenges. At the May 2012 NATO summit, hosted by the United States in Chicago, Allies will consider opportunities to advance our efforts on such critical capabilities as missile defense; intelligence, surveillance, and reconnaissance; and assuring the right mix of nuclear and conventional forces.

Our European allies have been critical to NATO's efforts in Afghanistan. While some feared a "rush for the exits" after NATO announced the goal of a 2014 transition to Afghan lead, in fact the Alliance has held together under the principle "in together, out together." The Chicago

Summit will shape the next phase of the transition of security responsibility to the Afghan National Security Forces.

We continue to work closely with our partners in the P5+1 (the UNSC Perm 5, plus Germany) and the EU to engage Iran in serious discussions without preconditions regarding the international community's concerns about its nuclear program. As Iran has failed to show any serious sign of being ready or willing to engage, both the United States and the European Union have significantly increased our sanctions against the regime since the last round of UN sanctions in June 2010.

We believe U.S. and EU sanctions are severely affecting the regime in Iran. We see no evidence that Europe's economic crisis has made European governments less willing to impose vigorous sanctions; on the contrary, since 2011 EU member states have moved to expand dramatically measures against the regimes in Iran and Syria, including against their financial and energy sectors, and have maintained sanctions in other cases.

Most recently, on January 23, the European Union took action to ban imports of Iranian crude oil and petroleum products, freeze the assets of the Iranian central bank, and take additional action against Iran's energy, financial, and transport sectors. These actions are consistent with the Iran sanctions in the National Defense Authorization Act of 2012, on which we deeply appreciate the close engagement between the Administration and the Senate.

We will continue to coordinate with our partners in Europe and around the world to increase sanctions pressure to sharpen the choice for the Iranian regime between continued violations of its international nuclear obligations and serious engagement with negotiations. Just last month, the EU announced a dramatic extension of its sanctions regime on Iran to include a ban on imports of crude oil from Iran, the lifeblood of the Iranian economy. The EU's new sanctions mirror the new sanctions recently passed by Congress and signed into law by President Obama on December 31, 2011.

In Libya, we cooperated closely with our European allies to pass UN Security Council resolutions 1970 and 1973, which levied sanctions against the Qadhafi regime, established a no-fly zone and maritime embargo of Libya, and provided protection for citizens under attack by their own government. This authorization allowed us, in coalition with Europe, to take down Libya's air defense system. We then handed the mission over to NATO, which quickly assumed command and control, and conducted a flexible and precise operation that saved tens of thousands of lives. This operation demonstrated that NATO remains the world's strongest political-military alliance, capable of bringing Allies and partners together under one command structure in a time of crisis. Since the end of the Libya operation, the EU and our European allies have remained committed to a successful transition in Libya, through development assistance and capacity building.

The European Union and its member states have remained committed to a successful transition in Libya, through humanitarian and development assistance, as well as capacity building and technical training for the emerging Libyan government.

In Syria, the EU has joined us in steadily ratcheting up the pressure on the Asad regime, including through multiple rounds of sanctions targeting individuals responsible for abuses and institutions that fill the regime's coffers. The United States and the EU have together led efforts to call attention to Syria's human rights violations, co-sponsoring three Special Sessions in the UN Human Rights Council, one of which resulted in the creation of an independent Commission of Inquiry tasked to document the atrocities of the Asad regime. America and Europe stand united alongside the Arab League in demanding an end to the bloodshed and a democratic future for Syria.

Additionally, Germany, France and the UK ("E3") led efforts at the UN General Assembly in November 2011 by introducing a resolution, approved by an overwhelming majority, calling on Syria to fully comply the Arab League's initiative.

And not resting on our laurels, we are engaging actively in the Middle East and North Africa to promote our shared values of democracy, especially in this time of transformational change. In the Middle East, we have a profound stake in this process. We are making the Deauville Partnership a priority during America's G-8 Presidency this year. And to make good on its promise, we will be putting forward an ambitious agenda to promote political and economic reform, trade, investment, regional integration, and entrepreneurship to help people in the region realize the better future they have risked so much to have.

And this work extends beyond the Middle East. We have to help consolidate democratic gains in places like Cote d'Ivoire and Kyrgyzstan, and support democratic openings in Burma, and wherever people lack their rights and freedom. America and Europe have more sophisticated tools than ever to support and reward those who take reforms, and to pressure those who do not.

On Russia, Europe worked with both us and the Russians last year through the long and complicated process of negotiating Russia's accession to the WTO, completing the process after 18 years of negotiation. This painstaking work resulted in an invitation to Russia to accede to this global rules-based trading system. Russia's WTO accession was a key step in putting our relations with Russia on a more constructive course, which is one of President Obama's top priorities.

Integrating Russia into the WTO has the potential to bring enormous benefits to U.S. manufacturers, farmers, and ranchers. While American exports to Russia rose 39 percent in 2011, more than twice as fast as our goods exports to the world as a whole, our exports to Russia, $8.2 billion in 2011, represents only around one-half of one percent of our total exports.

We should not underestimate the opportunity to expand U.S. exports further to a country of nearly 145 million people—the world's seventh largest economy. It's been estimated that Russia's WTO accession could result in a 20-percent increase in Russia's overall trade in manufactured goods, which could translate into a possible $2 billion increase in bilateral trade in manufactured goods with the United States. And the Commerce Department's International Trade Administration estimates that every billion dollars of U.S. exports supports over 5,000 jobs.

President Obama in his most recent State of the Union Address urged Congress to ensure "that no foreign company has an advantage over American manufacturing when it comes to accessing… new markets like Russia." And to improve opportunities for U.S. companies in Russia going forward and support jobs here in the United States, we will need to secure the full benefits of the WTO deal for American business by terminating application of the Jackson-Vanik Amendment to Russia, and by extending permanent normal trade relations to Russia.

Of course we have differences with Russia. Its recent veto of a tough UN resolution on Syria was – in the words of Secretary Clinton – a travesty. And the United States remains committed to strong, transparent support for civil society and democratic principles, as the Secretary demonstrated in the wake of the Russian parliamentary elections in December, when she voiced our concerns. But at the same time, we also have had unprecedented cooperation with Russia on Iran and North Korea. Russia has also agreed to greatly expanded use of its territory and airspace as supply lines to Afghanistan. And as indicated in our trade numbers, our economic ties are also expanding.

The Jackson-Vanik Amendment -- enacted vis-à-vis the former Soviet Union -- long ago fulfilled its purpose with regard to Russia: to support free emigration, particularly Jewish emigration. No such barriers to emigration exist in Russia today.

If Congress does not enact the necessary legislation to terminate Jackson-Vanik with regard to Russia, when Russia becomes a member of the WTO, the U.S. does not get all of the benefits of Russia's WTO membership, even though our competitors will. This puts many of our industries at a serious disadvantage. Unlike other WTO members, the United States will not be able to turn to the WTO mechanisms, including dispute settlement procedures, or ensure compliance on other areas such as intellectual property, services or WTO rules on antidumping.

President Obama has established extending Permanent Normal Trade Relations to Russia and terminating application of Jackson-Vanik to Russia as a major priority. Congress can help level the playing field for U.S. businesses and workers by terminating application of Jackson-Vanik to Russia before Russia joins the WTO this summer. Lifting Jackson-Vanik for Russia is about providing jobs and economic growth here in America.

Conclusion

The transatlantic relationship is not just a defining achievement of more than half a century ago – it is indispensible to the world we continue to build together in the century ahead. Our predecessors planned for the future together. They acted on a belief that America, Europe, and like-minded nations everywhere are engaged in a single, common endeavor to build a more peaceful and prosperous and secure world. The world around us is changing fast, and America and Europe are charting our path forward together to deal with the challenges we face.