

**EU and US Perspectives on Climate, Trade
and Bioengineering Policies**
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The European Union and the United States share many common goals and work together harmoniously on numerous political, economic, and environmental issues. In spite of the good will and appreciation that the world's two largest economies have for each other, there are significant policy differences that hinder our mutual goals of closer cooperation and mutual support. This paper takes a brief look at three policy issues that have been, and continue to be, major sources of friction between the EU and the US. These are: (1) climate change policy, (2) the use of the Foreign Sales Corporation by US exporters, and (3) biotechnology.

Climate Change Policy

While the EU and US share common goals of economic growth, sustainable energy supply, and environmental health, they do not share a common approach to address climate change; differing policies have resulted in misunderstandings and friction between long-time allies at a time when close cooperation is essential to address threats to global prosperity and security. So why have they chosen different strategies to address climate change?

First, the US made an early effort to measure the impact of Kyoto and more stringent targets on its economy using macroeconomic models. Macroeconomic models provide an assessment of the overall costs of meeting emission targets where the short-term, frictional costs of adjustment are included. These models, which US scholars and climate policy modelers began using in the early 1990s to measure the impact of Kyoto on the US economy, quantify the impact on employment, investment, budget receipts and GDP growth when an economy is "shocked" by having to make quick changes in its capital stock, production processes and lifestyles. Results of macroeconomic models show that Kyoto would have negative effects on the US economy in the range of 2 percent to almost 4 percent of GDP in 2010.

In contrast, the economic models used by EU environmental agencies are generally only designed for measuring sectoral effects, not economy-wide effects. PRIMES, a sectoral model used by the EU Commission, is primarily designed to show the effect of policy changes on energy markets. It can calculate the direct cost implications of reduced energy

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use, but not the economy-wide impact on GDP, employment and investment. Thus, the results of this model, which show a reduction of only 0.12 percent in GDP to the EU in 2010 from complying with Kyoto, are not an accurate measure of the total costs.

When macro models are used to measure Kyoto's effects on the EU, the economic effects are much greater, ranging from about 1.5 to 2.0 percent on more reduction in GDP levels in 2010. (See studies at www.iccfglobal.org) The post 2012 carbon emission targets, such as the 60 percent reduction by 2050 target being considered by the UK or the 70 to 80 percent reduction being discussed by other EU member governments and EU Commission officials will require additional sacrifice of investment, jobs and GDP because of the strong growth in CO₂ emissions predicted in the EU by the International Energy Agency and other international organizations.

Second, EU policymakers have projected a more rapid development of renewables and alternative technologies than the US. For example, the UK government's recent White Paper calls for a large increase in renewable energy. By 2010, 10 percent of the electricity supply is supposed to come from wind, solar and biomass or other renewables; by 2020 the renewable target is 20 percent.

Many believe the UK exaggerates the long-term benefits of renewables. Wind power, which has been singled out for major expansion in a report by the UK government's Performance and Innovation Unit, is not a very viable option because, as the new Royal Academy of Engineering report, "An Engineering Appraisal of the Policy and Innovations Unit's Energy Review" notes, in the UK there is a sizeable probability of no or very little wind blowing across the entire country. Regarding biofuels, the report also states that, "it would require the whole of Kent to be covered with coppiced willow, for example, to replace the output of Dungeness B (nuclear) power station on the Kent coast." An article in *Science Magazine* (November 2002) points out that the alternative approach chosen by the US requires a major commitment to a long-term R&D program for alternative energy sources for electricity and transportation.

The US government's 2003 budget has substantially increased spending plans for energy technology. As the article in *Science Magazine* points out, commercially viable technologies able to wean the world from fossil fuels are still a long way off. Achieving major advances in energy technology will require both serious government and private sector investment in R&D. Given that the evidence suggests the EU approach to tackling climate change will harm its economy, such a major investment in technologies that could offer a viable long-term energy alternative may prove to be a wise move for the US.

The EU and the US also differ on how to engage the developing world, where emission growth is rapid. EU officials have taken the position that if developed economies sign up to reduce emissions, the developing world—where the real growth in emissions will occur over the next century—will sign up to reducing energy use too. In contrast, US policymakers are engaged in a process of bilateral and trilateral climate change partnerships with both developing and developed economies to transfer existing technologies, such as clean coal, combined heat and power, and others, that will enable those countries to "grow" their

economies. As plans for COP9 proceed, it would be a positive step if both the EU and US could accelerate efforts to alleviate global poverty and increase the developing world's access to cleaner energy sources.

The agreement by the EU to participate in the Carbon Sequestration Leadership Forum during the recent EU-US summit was a positive sign signaling growing mutual cooperation in addressing an important global issue.

Taxation of Exports

Another issue that has caused friction between the EU and the US is the Foreign Sales Corporation program (FSC) used by US exporters. The Foreign Sales Corporation program was created to put US exporters on equal footing with European and other competitors whose exports benefit from a value added tax (VAT) system. The VAT system doesn't tax foreign source earnings as does the US income tax, effectively making, for example, European exported goods cheaper than similar US products. The FSC was designed to provide a level playing field upon which US products could compete.

US exporters believe that they face a real competitive disadvantage compared to EU firms. The corporate income tax rate is higher in the US than in the EU (35 percent in the US compared to an average of 31.7 percent in the EU). Depreciation allowances (capital cost recovery) is also slower in the US than in the EU for many assets used for manufacturing or improving environmental quality, thus raising the cost of new investment for US firms and making it more difficult for them to compete both at home and abroad.

In October 1999, the World Trade Organization (WTO), the global international organization that deals with the rules of trade between nations, found in a complaint brought by the EU that the FSC tax regime was a prohibited export subsidy under international trade rules. As a result, the US was instructed to repeal the program. Congress responded to the WTO ruling by passing the FSC Replacement and Extraterritorial Income Exclusion ACT (ETI) that attempted to replicate the tax benefits of the FSC in a way that did not violate WTO trade rules.

However, the EU argued again that the ETI, similar to its FSC predecessor, was an illegal export subsidy and should be prohibited under international trade rules. In January 2002, the WTO sided again with the EU and according to WTO procedures, the US was instructed to bring the ETI regime into compliance with WTO rules or face retaliatory measures. The EU has asked a WTO panel to authorize the imposition of up to \$4 billion in retaliatory tariffs on US imports. The EU has indicated that it will refrain from sanctions until 2004, or as long as it appears the US is making progress toward compliance.

A trade war between the EU and the US would strain the relationship further, as well as slowing economic growth in both. Given the apparent willingness of US policymakers to try to adjust the US federal tax code to accommodate both EU concerns and the fervent desire of US exporters to be on equal footing with their EU competitors, a positive outcome seems a realistic goal.

GMOs and Bioengineering: What Divides US and EU?

The rapid development of biotechnology over the last decade has raised a number of important questions. In particular, the application of biotechnology to agricultural production has been a topic of intense discussion and debate among policymakers, scientists, and the public. This tension is apparent between the US and the EU. In fact, in the late 1990s, some member states, including Austria, France, Germany, Greece, Italy and Luxembourg banned the import of genetically modified corn without, according to some, sufficient scientific evidence (as is required by World Trade Organization in moratorium cases). The source of this growing skepticism about GMOs in Europe has raised interest among researchers. One key factor, which is often mentioned, is the issue of timing: The debut of GMOs in Europe coincided with the emergence of severe public health scares such as mad cow disease and the transfusion of contaminated blood. A recent study emphasizes the focus on potential risks of GMOs and the extensive publicity given to them² This publicity has led to an increasing resistance to GMO use among EU policymakers. The opposition of Europeans to biotech products is apparent in the Eurobarometer Survey, which is conducted on behalf of the European Commission. As indicated by the survey, 70.9 percent of Europeans do not want genetically modified food and 85.9 percent want to know more about it before eating it.

A similar survey among US consumers conducted by International Food Information Council Foundation in April 2003, highlights the difference between European and US attitudes toward GMOs² That survey found that 62 percent of Americans believe that biotechnology will benefit them in the next five years. Part of the explanation for the difference in opinion among EU and US consumers is their faith in the North American food system. While the Americans trust the system, European consumers tend to think that economic and political interests may create a disregard for certain health risks.

Policymakers both in the US and in the EU are aware of the importance of biotechnology for the future of the world. In fact, a recent study by the European Commission states that, “Europe is currently at a crossroads: we need to actively develop responsible policies in a forward-looking and global perspective, or we will be confronted by policies shaped by others, in Europe and globally.”³ Despite this awareness, some of the policies pursued in the EU have had a negative impact on the development of biotechnology. Strict EU requirements on the labeling and traceability of GM crops are likely to impose severe restrictions on the freedom of choice of farmers in developing countries who do not have the necessary infrastructure to comply with complex requirements. Furthermore, the exaggeration of the potential risks associated with GM crops has led to a number of African governments facing the threat of starvation to refuse food aid. The GM issue illustrates the need for responsible policy actions and closer cooperation between EU and US policymakers

¹Sylvie Bonie. “Why are most Europeans opposed to GMOs? Factors explaining rejection in France and Europe” *Electronic Journal of Biotechnology*. Vol 6, No. 1, Issue of April 15, 2003.

²IFIC Survey: Americans’ Acceptance of Food Biotechnology Matches Growers’ Increased Adoption of Biotech Crops. (<http://ific.org/proactive/newsroom/release.vtml?id=21241>)

³Commission of the European Communities. Communication from the commission to the council, the European parliament, the economic and social committee and the committee of the regions, “Life Sciences and biotechnology—A strategy for Europe” 01/23/2002, pg4

so that the benefits of bioengineering can be harnessed to alleviate hunger and increase living standards globally.

Conclusions

As the discussion above suggests, the EU and the US have different concepts and approaches to many important issues that affect not only relations between the world's largest economies but also developed and developing countries around the globe. Continuing to encourage a dialogue among business, policymakers, the media and other stakeholders on as many levels as possible, will contribute to the resolution of these differences. The meeting convened today at the Fundacion Concordia by Alejo Vidal-Quadras, Vice President of the European Parliament, plays an important role in promoting discussions that reduce barriers between the EU and the US and increase our mutual respect and understanding.