

VIEWPOINT

It is time for a revolution in EU-US regulatory cooperation, argues Michael Maibach

TRANSATLANTIC TRENDSETTERS

"Globalisation" has been led by Western inventors and entrepreneurs.

It began with the transportation revolution, started by Christopher Columbus' voyages in wooden, wind-powered ships, followed by the development of the steam engine and ultimately, the emergence in the 20th century of gas turbine technology, which made modern air travel possible.

The information revolution has had an even greater impact on globalisation – and has also been a transatlantic enterprise. From the first telegraph to the telephone, to the development of solid-state electronics that set the stage for radio, television, computers and countless digital devices, the West has shown the way. The marriage of computing and telecommunications became ARPAnet, the world's first operational packet-switched network. This engendered the internet, the worldwide web and Mosaic, all of which unleashed the creativity of countless individuals and companies who have given us Skype, Yahoo!, Amazon, eBay, iTunes, Google and millions of other innovations.

These Western-led revolutions have one thing in common. They connect capital, goods, services and ideas with people, companies and institutions all over the world. But now another "revolution" is required to facilitate

in a global "regulatory revolution" with the same creativity, dedication and cooperation their predecessors displayed.

For centuries, wealth, technology and services have flowed increasingly on horizontal planes – aligned with Adam Smith's open markets, David Ricardo's theory of comparative advantage and Joseph Schumpeter's idea of creative destruction.

In *The Mystery of Capital*, Hernando de Soto writes that all wealth creation is found in the free association of individuals serving others through commercial enterprises. Such collaboration must be fostered across every border, in every way. Indeed, this transnational ideal is at the heart of the EU experiment itself.

Markets, technologies and enterprises are horizontal by nature. A key element of 21st century competitiveness will be the degree to which "vertical" governments – in cooperation with their industries – move to horizontal regulations and standards around the world, while maintaining competitive business environments.

Government-industry regulatory and standards cooperation is vital for EU and US competitiveness for three reasons.

First, the "virtuous cycle of standardisation" drives economies of scale, technology connectivity and

70 percent of US foreign investment comes from European companies and more than 50 percent of European foreign investment comes from US companies. Furthermore, 35 percent of transatlantic and global trade is "intra-company trade".

We need friction-free transatlantic avenues of commerce. Making both economies more productive is in our mutual interests. With 11 percent of the world's people, Europe and the US still create around 57 percent of the world's GDP and trade. Wealthy societies are distinguished by regulatory regimes that work well – protecting property and investments, enforcing contracts and fostering the robust movement of capital, goods and services.

Recent regulatory failures in capital markets are a stark reminder that "smart regulation" is a must. As the EU and US expand regulatory cooperation, governments must allow industry-driven standards to lead the way. Markets matter.

And third, 21st century trade barriers will involve standards and regulations more than tariffs. Transatlantic regulatory cooperation can set the stage for global leadership. Since not all countries will adopt a "win-win" approach, we need transatlantic leadership before others act.

High Western standards protect and lift the lives of our citizens; well-designed regulations drive innovation. Western leadership in this area can enhance the lives of people everywhere. The alternative may be lowest-common-denominator standards as well as regulatory corruption.

The Transatlantic Economic Council (TEC) was developed in 2007 by President George W Bush, European Commission President José Manuel Barroso and German Chancellor Angela Merkel as the locus of US-EU

The trade barriers of this century will be regulations and standards more than tariffs

movement of capital and resources – a revolution of standards and regulations to enhance the benefits of globalisation to enterprises, governments and citizens. European and American leaders must seize this opportunity to become partners

movement of capital to investments with optimal returns. Standardisation keeps prices low, competition and thus innovation robust, and productivity high.

Second, for every \$1 traded across the Atlantic, \$4 is invested. More than



Photograph: Reuters

Across the pond, life: more than 70 percent of foreign investment in the US comes from European companies

regulatory cooperation. We need to enhance the focus and performance of the TEC process in 2009. Initially the TEC gave a fair amount of attention to “yes-no” trade and regulatory problems, like poultry trade where the two sides are divided over facts and political imperatives.

The TEC should focus more on “yes-yes” areas for regulatory cooperation, such as the development of secure, interoperable electronic health records. “Yes-yes” issues offer opportunities for both partners to display the political will for mutual cooperation.

A management template for a 2009 TEC action plan would include: appointing senior US and EU career officials as TEC project co-chairs; requiring the co-chairs to agree on goals and timelines for success and asking them to give progress reports each time the TEC meets; providing political support as appropriate and timely; involving legislative leaders at the beginning, not just the end; asking the US-EU Regulatory Cooperation Forum to advise the project co-chairs on best practices and effective measurement tools; and finally favouring industry-led standards and regulatory coordination because industry is most clear about the environment needed for future innovation.

There are numerous areas for the TEC to target within a “yes-yes” paradigm.

First, the US, the EU and Brazil should adopt a single biofuels standard. While not practical given reliance on subsidised, trade-protected crop feed stocks, once

we move to second-generation feed stocks such as cellulosic, a single standard will facilitate a technology-neutral global market that will allow the best technologies and delivery systems to win.

Second, US-EU leadership must drive the adoption of globally harmonised, technology-neutral e-accessibility standards. These tools allow the deaf, blind and infirm to use the internet for worldwide access to jobs, information, commerce, culture, education, health care and communication. But divergent national policies may create “vertical” barriers that raise costs, reduce innovation, and curtail transnational accessibility for the people who need “virtual mobility” the most. Harmonised standards will help avoid such “silos”.

Third, a transatlantic system of e-health records should be established. Today, people are on the move and so are diseases. Interoperable, secure electronic health-records systems can and must allow citizens and healthcare professionals access to records swiftly when needed. But a global system must begin with a transatlantic system. The US Department of Health and Human Services is working with the European Commission’s Information Society Directorate General and leading companies to make this a reality. E-health records in interoperable formats will improve quality of care, system efficiencies, patient safety, and chronic disease management.

Fourth, EU-US regulatory cooperation is needed to ensure we enjoy secure and

seamless global supply chains. RFID (radio frequency identification) technology will form the basis of a global supply chain that enhances sustainable competitiveness, and allows “track and trace” of products for inventory control, as well as consumer safety and health protection. But the European Commission is considering regulatory guidance to EU member states that may reduce the use of this nascent technology. RFID tags simply send the same product number as today’s static barcode. This is a safe technology that clearly benefits consumers everywhere.

European and American business leaders are committed to transatlantic investment, innovation and integration to boost jobs and enhance wealth creation. A key success factor in this will be the development of business-friendly regulatory environments fostering friction-free movement of capital, goods, services and information across the Atlantic and around the world.

The next global revolution will be a “regulatory revolution” demanding that governments collaborate to serve citizens in an increasingly competitive and interdependent world. So let’s make the Atlantic market the world leader in “horizontal government” – and quicken the pace of transatlantic regulatory cooperation to ensure the EU and US retain this competitive advantage.

Michael C. Maibach is president & CEO of the European-American Business Council