

First Resort:

An Agenda for the United States and the European Union

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Preface and Acknowledgments

This report presents the conclusions of a project conducted for the Netherlands Ministry of Foreign Affairs to set forth concrete recommendations to make the relationship between the United States and the European Union more strategic and effective. The project's intent was to look beyond the traditional foreign affairs agenda to explore practical ways to advance U.S.-EU partnership in five areas: health; resilience, digital issues; climate change and energy transformation, and trade and investment. For each topic we commissioned short policy briefs from U.S. and European authors to set the stage for a virtual off-the-record conversation with practitioners, scholars and other experts. This report draws on but is not limited to those papers and conversations. While acknowledging our debt to all authors and discussants, as principal author and convenor, I am solely responsible for the final recommendations.

I thank the Netherlands Ministry of Foreign Affairs for its support and active participation in this project, as well as the authors of the policy briefs and the scores of participants who joined us for the series of conversations that informed this report.

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Executive Summary

Joe Biden and EU leaders have underscored that the United States and Europe are indispensable partners of first resort. The United States and the EU have a rare and potentially fleeting opportunity to reinvigorate and recast their partnership to rebuild a sense of common cause and forge a resilient Atlantic partnership that is more effective at leading our societies and economies from sickness to health, enhancing our prosperity, protecting our interests and advancing our values, and working with others to forge global responses to global challenges.

This renewed sense of common purpose is likely to start quickly – although not necessarily easily – in the foreign policy realm. The two parties will want to ensure that U.S.-EU-UK relations remain strong and sturdy. They share a common interest in a more capable Europe, including in defense and security. And they must find common ground in identifying together where China can be a potential partner, where they agree it is a competitor, the ways in which it is a systemic rival, and what each partner can do, together or separately, to address the opportunities and challenges that accompany China's rise.

However, the most far-reaching opportunities for U.S.-EU cooperation are likely to transcend foreign policy; they include interrelated issues of health, resilience, climate and energy, digital transformation, creating jobs and fostering inclusive and sustainable growth. This report focuses on these key areas.

The most urgent priority is to lead our societies and our economies from sickness to health, including through a Transatlantic Recovery Initiative. Measures could include lifting remaining transatlantic trade barriers on, and streamlining approvals of, medical devices, supplies and other products in each other's markets; working bilaterally and via the WTO's Trade and Health Initiative to facilitate global trade in essential medical goods and healthcare products; and strengthening transatlantic and global supply chains.

I. IMPROVE HEALTH

COVID-19 will be a high-priority health security threat for the next two years and likely beyond. Transatlantic cooperation will also be an essential motor behind multilateral efforts to improve global health security and governance. The United States, together with the EU and its member states, must prioritize efforts to address more effectively together both the immediate, ongoing COVID-19 threat and these broader health challenges. The COVID-19 response should include efforts to promote global access to vaccines via the COVID-19 Vaccine Global Access (COVAX) Facility and access to COVID-19 technologies, and support for the Access to COVID Tools-Accelerator program (ACT-A). Joint efforts to address medical, scientific, behavioral, and other knowledge gaps will also be essential.

Beyond COVID-19, the transatlantic partners must act now to prepare better for the next pandemic, including by taking up the EU's offer to develop a pandemic playbook for prevention, preparedness and response, and to prioritize "One Health" efforts. They must improve security responses to future health security threats, such as intentional acts of bioterrorism and "infodemics" of mis- and disinformation. They should strengthen multilateral cooperation in global health, including through efforts to support, reform and improve the World Health Organization (WHO), to support the Global Health Security Agenda (GHSA) 2024, and ongoing work within the G20.

II. ENHANCE RESILIENCE

The COVID-19 pandemic, cyberattacks, dis- and mis-information through digital channels, terrorist threats, and disruptions to supply chains are grim

examples of how essential flows of people, goods, services, transportation, energy, food, medicines, money and ideas that power our societies are increasingly susceptible to disruption. There is pressing need to implement operationally the concept of resilience – the ability to anticipate, prevent, protect against and bounce forward from disruptions to critical functions of our societies.

Resilience has become an important agenda item for the United States, the members of the European Union, and for U.S.-EU and EU-NATO relations. U.S.-EU Summit principals should adopt a Transatlantic Solidarity Pledge by issuing a joint political declaration that they shall act in a spirit of solidarity – refusing to remain passive – if either is the object of a terrorist attack or the victim of a natural or man-made disaster, and that they shall mobilize instruments at their disposal to assist at the request of their respective political authorities. The UK and Canada should be invited to join that declaration. To operationalize this initiative, they should create a U.S.-EU Resilience Council, develop a Critical Infrastructure Security Action Plan, improve coordination among relevant operations centers, take up the EU's offer to cooperate on cybersecurity capacity building, situational awareness and information sharing, and bolster cooperation with the private sector, which owns most transnational infrastructures and movement systems critical to essential societal functions.

III. ADVANCE A TRANS-ATLANTIC DIGITAL AGENDA

The COVID-19 pandemic has amplified and accelerated the many ways the digital revolution is shaking and shaping the way we live, learn, work and play. Digitally-enabled flows are becoming the world's operating system, the plumbing that

channels what we need to where we need it, the values that inform it, the principles that make it work, the standards that make it safe, and the models of production and service that render it effective and efficient. The transatlantic theatre is the fulcrum of global digital connectivity; the United States and the EU bear particular responsibility to define the digital world.

There is much to be welcomed in the EU's offer to develop a "transatlantic technology space" that "should form the backbone of a wider coalition of like-minded democracies with a shared vision on tech governance and a shared commitment to defend it." Nonetheless, before a positive U.S.-EU digital agenda can take shape, the two partners must address a series of digital disconnects that have roiled U.S.-EU relations in recent years, including differences over privacy rules, digital services taxes, antitrust laws, efforts to address dis- and mis-information through digital channels, contrasting approaches to 5G regulation, and U.S. uncertainties about the transatlantic consequences of the EU's proclaimed ambition to strengthen its "technological sovereignty" and major initiatives such as the Digital Services Act and Digital Markets Act.

Despite these irritants, there are sufficient complementarities in U.S. and EU approaches to warrant intensified efforts at a more forward-looking approach to digital issues, by launching an EU-U.S. Dialogue on data governance issues, and by taking up the EU's offer to intensify cooperation on digital supply chain security and to work on a Transatlantic AI Agreement on artificial intelligence.

IV. MEET THE CLIMATE CHALLENGE THROUGH ENERGY AND ECONOMIC OPPORTUNITIES

The climate and energy transitions underway are about much more than the environment. They

herald a fundamental transformation that promises to make our societies stronger, safer and more resilient through economies that can weaken the link between the production of wealth and the consumption of resources. This transformation will not happen overnight, yet it can be accelerated to the extent that climate and energy goals can be integrated with plans to boost economic recovery, jobs, growth and a just transition, both at home and abroad. Effective green recovery plans have the potential to boost income, employment and GDP better than traditional stimulus measures, while also reducing emissions. If properly deployed, trade policies can serve as additional levers of the climate and energy transition and can significantly contribute to meeting emission reduction targets. This integrated approach should be woven into all areas of U.S.-EU cooperation and must be grounded in extensive stakeholder engagement on each side of the Atlantic.

The transatlantic partners must identify and facilitate pathways to global net-zero emissions by 2050, including by cooperating on monitoring and reducing methane emissions and phasing down the use of hydrofluorocarbons. They should take up the EU's offers to form a Transatlantic Green Tech Alliance to create lead markets and cooperate on clean and circular technologies, to generate a Transatlantic Green Trade Agenda, and to design a regulatory framework for sustainable finance. They can mobilize multilateral efforts to establish global standards for financial disclosures related to climate risks. Transatlantic efforts to support a just transition around the globe, especially among those countries least able to take climate action on their own, can and must be integrated into more effective cooperation on development and humanitarian assistance. They have a common interest in securing the flow of critical raw materials, enhancing energy security and diversification in Europe, addressing geopolitical energy conflicts, and taking up the EU's offer to address the increasing links between climate change and defense, both abroad and at home. They

should reenergize and revamp the U.S.-EU Energy Council as a U.S.-EU Climate and Energy Council, to serve as an overarching platform for transatlantic climate and energy work.

V. PROMOTE JOBS AND GROWTH, INCLUDING THROUGH TRADE AND INVESTMENT

The pandemic-induced devastation of job markets in the United States and the EU has reinforced widespread concerns about the uneven benefits of trade and technological change. Transatlantic economic cooperation has been further damaged by mutual imposition of tariffs and failure to resolve the Boeing Airbus dispute. U.S.-EU economic initiatives must clear away these irritants and be crafted so that they bring tangible gains to broad parts of the population on each side of the Atlantic.

Given current tensions, there is understandable temptation to keep transatlantic trade negotiations in the deep freeze. Yet if the United States and the EU prove unable to resolve bilateral frictions and better the terms of their own extensive commercial relationship, it will be difficult to find common ground on other issues. Unresolved trade, tax and privacy issues are more likely to fester than remain frozen. Washington and Brussels will be distracted and diminished by their trade squabbles as China rises. A Transatlantic Green Deal could be derailed. The WTO could be at risk. Economic anxieties and political prejudices will be exacerbated. The result would be the triumph of lowest-common-

denominator standards for the health, safety and welfare of Americans and Europeans alike. Standing still means losing ground.

The two parties must recommit to a positive trade and investment agenda, even as they focus that agenda on effective ways to render both economies stronger, promote better jobs and generate sustainable growth.

A new transatlantic initiative must be grounded in a fundamentally new narrative and approach than the stillborn TTIP effort. First, the parties should work to improve their regulatory cooperation, including by forging a Standards Bridge that could help small- and medium-sized enterprises, and by aligning positions within international standard setting bodies. But they should separate such cooperation from bilateral market access negotiations. Second, the parties should seek a Transatlantic Zero tariff agreement that would eliminate all duties on traded industrial and agricultural goods and services. That effort should exclude sanitary and phytosanitary (SPS) measures and investor-state dispute settlement (ISDS) provisions. Third, they should intensify North Atlantic flows in research, development and innovation, which are the most intense in the world, and essential to such leading-edge sectors as AI, biotechnology, and clean energy technologies. Fourth, they should take up the EU's offer to reform the WTO, by finalizing the appointment of a new Director-General, restoring dispute settlement by reforming the Appellate Body, intensifying US-EU-Japan work on level playing field issues, and bringing forward WTO e-commerce negotiations.

First Resort:

An Agenda for the United States and the European Union

Introduction: Challenge and Renewal

Joe Biden has underscored that Europe “remains America’s indispensable partner of first resort” and “the cornerstone of our engagement with the world.” European Union foreign policy chief Josep Borrell echoed these sentiments in November 2020 when he said “the European Union and the United States are and will remain key strategic partners of first resort in critically difficult moments, like the ones that we are living.” Anticipating the Biden administration, the EU set forth in December 2020 “a new EU-US agenda for global change,” rooted in the realization that “for people on both sides of the Atlantic, transatlantic ties are a vital element in our societies, identities, economies and personal lives.” European Commission president Ursula von der Leyen has hailed the chance to “breathe new life into our cherished alliance,” and European Council president Charles Michel has proposed “a new founding pact” so that the United States and the EU can “stand as the bedrock of the rules-based international order.”¹

These insights offer a rare and potentially fleeting opportunity to reinvigorate and recast the U.S.-EU partnership to address the unparalleled damage wrought by the coronavirus, fissures that have opened up within and between our societies, unprecedented climate and energy challenges, the promise and the perils of swift and often disruptive technological innovation, and revisionist assaults on our principles and our institutions.

The first and most important step is to rebuild a sense of common cause by reconciling Europe’s

integration with a strategic transformation of transatlantic relations. The goal should be a resilient Atlantic partnership that is more effective at enhancing our prosperity; protecting our societies; advancing our values, and working with others to forge global responses to global challenges.

This renewed sense of common purpose can be established relatively quickly in the foreign policy realm. The EU paper offers an ambitious menu in this regard, including countering instabilities in many world regions generated by domestic conflicts or malign external influences, controlling Iran’s nuclear ambitions, strengthening democracy around the world, fighting corruption, authoritarianism and human rights abuses, supporting workers’ rights, enhancing coordination in the use of sanctions in pursuit of shared objectives, and strengthening the multilateral system. In Europe the EU singles out the Western Balkans, Central and Eastern Europe, and the Eastern Mediterranean as areas for enhanced U.S.-EU cooperation. The Biden administration is likely to respond positively to many of these ideas.

The key to a more effective and strategic relationship, however, is to recognize that the United States and the EU are more than foreign policy partners. The U.S.-EU relationship is among the most complex and multi-layered economic, diplomatic, societal and security relationship that either partner has, especially if it is seen to encompass the relationships the United States maintains with the EU’s member states as well as EU institutions. In a world of deepening global connections, the transatlantic relationship remains the thickest weave in the web. Networks of interdependence across the Atlantic have become so dense that they

transcend “foreign” relations and reach deeply into our societies. They affect, and must include, a wide range of domestic institutions and stakeholders.

For this reason, far-reaching opportunities for U.S.-EU cooperation transcend foreign policy; they include interrelated issues of health, resilience, climate and energy, and digital transformation. While the EU paper addresses some of these aspects, it could expand on others. This report focuses intentionally on these key areas.

The United States and the EU must also reframe the goals of their economic cooperation. The pandemic-induced recession has swelled economic insecurities on each side of the Atlantic, amplifying popular concerns about jobs and equitable growth. The climate change crisis and the digital revolution are challenging industrial-age patterns of production and consumption, innovation and regulation. Intensified global competition, driven in part by China’s model of authoritarian state capitalism, is challenging the attractiveness of democratic market-based systems. These factors compel the United States and Europe to focus transatlantic cooperation squarely on creating jobs, boosting sustainable growth, and protecting our values by ensuring that North Atlantic countries are rule-makers, rather than rule-takers, in the global economy. Transatlantic trade and investment initiatives should be advanced as means to these ends, not as ends in themselves.

The most urgent priority is to lead our societies and our economies from sickness to health. As of this writing, the COVID-19 pandemic has taken more than 2 million lives worldwide. The United States and the EU have each lost over 400,000 lives.

COVID-19 is an unprecedented test of transatlantic and global cooperation to ensure healthy societies and restore healthy economies. It is also a transformative opportunity for the United States and the EU to build international coalitions to end the coronavirus pandemic, mobilize reforms for more effective, ethical global healthcare, generate new markets for healthcare products and services, and

create economic pathways out of the recession.

The United States and the EU should immediately launch a Transatlantic Recovery Initiative to fight COVID-19 and restore global economic health – suppressing transmission, generating and distributing vaccines, testing kits and critical supplies, jumpstarting domestic economies and global flows of goods, services and investments, and leading coordinated and cooperative relief, recovery, and economic stimulus measures. This could include:

- lifting remaining transatlantic trade barriers on, and streamlining approvals of, medical devices, supplies and other products in each other’s markets;
- working bilaterally and via the WTO’s Trade and Health Initiative to facilitate global trade in essential medical goods and healthcare products, including through trade-facilitating customs and services measures, limiting export restrictions, temporarily removing or reducing tariffs on such products, and improving transparency;
- strengthening transatlantic and global supply chains and logistics networks to facilitate the flow of essential medicines and medical supplies, including vaccines;
- prioritizing work to set standards jointly on foundational and emerging technologies, including pharmaceuticals, that could both shape and ease global responses.

The United States and the EU must tackle this most urgent priority as part of a once-in-a-generation opportunity to forge a broader, more strategic and effective partnership to improve health, shape global climate and energy policies, build resilience, enhance digital and technological cooperation, digital disconnects, and create better jobs and more inclusive and sustainable growth, including through trade and investment initiatives.



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I. IMPROVE HEALTH²

COVID-19 will be a high-priority health security threat for the next two years and likely beyond. Though multiple authorized vaccines are now available, and many more candidate vaccines are in development – an amazing feat of science that was reliant on extensive transatlantic cooperation, and not possible for any previous pandemic – it will take a year or more to manufacture and deploy enough vaccine to stop the pandemic. Even after vaccination becomes routine, it is likely that the virus will remain endemic and continue to evolve, requiring vaccine adjustments and constant vigilance for years to come.

Beyond COVID-19, transatlantic cooperation will be an essential motor behind multilateral efforts to improve global health security and governance. The United States, together with the EU and its member states, should prioritize efforts to address more effectively together both the immediate, ongoing COVID-19 threat and these broader health challenges.

COVID-19 Response

1. Promote global access to COVID-19 vaccines, diagnostics, therapeutics and other technologies.

- *Promote global access to vaccines via*

COVAX. The Biden administration has signaled that the United States will participate in the COVID-19 Vaccine Global Access (COVAX) Facility, joining 190 countries already working to ensure that 92 low- and middle-income nations can access COVID-19 vaccines. The U.S. COVID-19 relief package passed by the U.S. Congress in December 2020 earmarked a \$4 billion investment for Gavi, the vaccine alliance that co-sponsors COVAX. This will undoubtedly help, but additional support, together with full U.S. participation in COVAX, is essential.

» ***COVAX Advance Market Commitments.*** The United States should join the EU and others to fund the \$5 billion COVAX Advance Market Commitments that should incentivize vaccine production, as well as finance procurement and distribution of vaccines.

» ***Support the Access to COVID Tools-Accelerator program (ACT-A).*** Global COVID-19 health system preparedness and response is considerably more complex than just provision of vaccines. ACT-A is an international platform

to address vaccines, diagnostics, therapeutics and health systems. The latter three pillars remain considerably underinvested. The two parties should mobilize international support, including finance, to these 3 other pillars.

» ***Facilitate access to COVID-19 technologies.*** The EU and the United States should make efforts, beyond their COVAX commitments, to reach and finance a proper multilateral agreement on access to COVID-19 technologies as a global public good, following the principles established in WHO's COVID-19 technology access pool.

2. Prioritize key research initiatives. Joint efforts to address medical, scientific, behavioral, and other knowledge gaps will help in the continuing response to the SARS-CoV-2 virus, as well as for future health security threats.

- ***Vaccine effectiveness and mixing and matching vaccines.*** There are dozens of vaccine candidates for SARS-CoV-2, with a variety of different methodologies. Most of them are 2 dose regimens. As vaccination becomes more common and more vaccines come to market, there will be questions about the effectiveness of mixing and matching doses. It is also likely that a booster will be needed in coming years. These questions can begin to be answered by clinical trials that deliberately mix and match vaccine candidates. Some have begun; more are needed.
- ***Learn from the clinic.*** Health scientists can learn more from patients than they currently do. There is a critical need to get better data from the clinic much faster in the future. These data systems must be protected and results need to be shared.

- ***Incorporate understanding of behavioral norms into public health measures.*** Longstanding research in how to convince people to improve their health need to be incorporated better into health systems. Research initiatives should outline what organizational changes are needed, for COVID-19 responses and beyond.³

Beyond COVID-19

1. Mobilize transatlantic action to prepare better for the next pandemic.

- ***Take up the EU's offer to develop a pandemic playbook for prevention, preparedness and response,*** aligning preparedness plans, crisis protocols and dedicated assets to tackle future emergencies. This could include improving data and knowledge sharing, early warning systems and stockpiling of key medical equipment. U.S. and EU agencies for medicines, disease prevention and control and biomedical research should coordinate to ensure what the EU calls "a coherent transatlantic position and information flow." Such a playbook should be prepared with humility and with a look to lessons from other democracies who have coped better with the crisis than Europe and the United States.
- ***Prioritize "One Health" efforts.*** One Health is an approach that recognizes that the health of people is closely connected to the health of animals and our shared environment. One Health is not new, but it is becoming more important as more humans live in close contact with animals, as animals become more susceptible to diseases due to disruptions in their environmental conditions and habitats, and as greater cross-border movement of people, animals

and animal products accelerate the spread of known and emerging zoonotic diseases that spread between animals and people. One Health issues include zoonotic diseases, antimicrobial resistance, food safety and food security, vector-borne diseases, environmental contamination, and other health threats shared by people, animals, and the environment. One Health approaches range beyond the public health sector to incorporate other important societal actors.⁴ The United States and the EU should act individually and together to advance One Health efforts at home and internationally.

- ***Improve security responses to future health security threats.*** The COVID-19 experience is dramatic evidence that pathogens can kill and sicken many millions of people, damage economies, exacerbate inequalities, and degrade security readiness and military assets. The United States and the EU should evaluate how these events have changed their vulnerability to accidental or deliberate threats from biological agents and determine whether preparedness is sufficiently in line with those dangers.
 - » ***Provide a joint assessment to the Biological Weapons Convention*** (BWC) of how biological threats have changed, how the states parties can address them, and how the BWC should be funded and organized to meet expanded challenges.
 - » ***Address mis- and disinformation.*** The COVID-19 pandemic has been accompanied by what the WHO calls a global “infodemic” of mis- and disinformation that has undermined public health measures and led to additional loss of life. Groups spreading disinformation about vaccine COVID-19

are coordinating and highly organized.⁵ The level of resources they are bringing to spread disinformation about COVID vaccines, as part of their goal to increase disinformation about vaccines in general, is unmatched by efforts by health authorities. Other actors, such as China and Russia, intentionally spread mis- and disinformation about efforts by democratic countries to fight the virus while heralding authoritarian measures. The United States and the EU should mobilize international efforts to address this infodemic, including through public education efforts that reach beyond COVID, and through more rigorous vaccine diplomacy that showcases how democracies are addressing the challenge.

- ***Convene a Transatlantic Global Health Summit*** to address imminent and future global health security risks. COVID-19 has demonstrated that investments in the biological sciences are critical for future preparedness. Both the EU and the United States will have to develop a new global health strategy and define their separate, as well as, joint collaboration to global health objectives and diplomacy, including via platforms such as the G7, G20, UN Security Council, WHO and regional investment treaties.

2. Enhance transatlantic cooperation to strengthen multilateral cooperation in global health.

- ***Take up the EU's offer to support, reform and improve the World Health Organization (WHO).*** The WHO currently has a shoestring annual budget of \$5.8 billion – hopelessly inadequate to its mandate and its challenges. Much

of that budget is earmarked for specific purposes, which further prevents flexible and rapid response. In addition, despite the raging pandemic, WHO members have not yet stepped away from an agreement they made in less desperate times not to increase WHO funding.

The United States and the EU should work with others to double the WHO budget, including more non-earmarked funding. They should mobilize support to transform the current funding model from voluntary contributions to mandatory dues. They should use greater funding support to reform and de-politicize the WHO by ensuring it is as driven by scientific and public health considerations as much as possible, and by sharpening its focus to activities where it adds the most value, such as managing cross-border threats and developing technical guidelines.⁶

» ***Strengthen WHO tools.*** Currently the WHO can only cajole countries to go along with international health initiatives. The United States and the EU should consider whether and how the WHO's legal instruments could be expanded to ensure better adoption and implementation of international treaties and regulations, including tangible consequences and stronger sanctions

for non-compliance with regulations, similar to authorities vested in the WTO on trade matters.⁷ At the same time, they should bolster International Health Regulations (IHR) provisions for international assistance, including a financial mechanism to assist low-income countries in building and sustaining capacities to prepare for and respond to public health emergencies.

- ***Take up the EU's offer to advance these initiatives at the 2021 G20 Global Health Summit, under the G20 Italian Presidency.***
- ***Support the Global Health Security Agenda (GHSA) 2024.*** The GHSA vision is "A world safe and secure from global health threats posed by infectious diseases, whether natural, deliberate, or accidental." It was launched in 2014, just in time to be immediately useful in addressing the Ebola crisis. Its 69 member countries include the United States but only 10 EU countries. Reclaiming U.S.-EU public health leadership and shared partnership on health security should lead the EU and all member states to join and strengthen the GHSA24 process, which includes measurable goals to improve performance in various areas by 2024.⁸



II. ENHANCE RESILIENCE⁹

The COVID-19 pandemic, cyberattacks, dis- and mis-information through digital channels, terrorist threats, and disruptions to supply chains are grim examples of how essential flows of people, goods, services, transportation, energy, food, medicines, money and ideas that power our societies are increasingly susceptible to disruption. There is pressing need to implement operationally the concept of resilience – the ability to anticipate, prevent, protect against and bounce forward from disruptions to critical functions of our societies.

Ensuring the resilience of one’s society is foremost a task for national governments. Resilience begins at home. Nonetheless, no nation is home alone in an age of pandemics, potentially catastrophic terrorism, networked threats and disruptive hybrid attacks. Country-by-country approaches to resilience are important but insufficient in a world where few critical infrastructures are limited to national borders and where robust resilience efforts by one country may mean little if its neighbor’s systems are weak. Moreover, not only are European and North American societies inextricably intertwined, no two economies are as deeply connected as the two sides of the North Atlantic. If Europeans and

Americans are to be safe at home, national efforts must be coupled with more effective transatlantic cooperation.

The EU paper is strangely silent on this issue, even though resilience has become an important agenda item for the United States, the members of the European Union, and for U.S.-EU and EU-NATO relations. A vigorous transatlantic and international resilience effort should be a core priority for the transatlantic partnership.

Adopt a Transatlantic Solidarity Pledge. At a 2021 U.S.-EU Summit, principals should issue a joint political declaration that they shall act in a spirit of solidarity – refusing to remain passive – if either is the object of a terrorist attack or the victim of a natural or man-made disaster, and that they shall mobilize instruments at their disposal to assist at the request of their respective political authorities. The UK and Canada should be invited to join that declaration. A political pledge would create key preconditions for advancing overall resilience, give political impetus, bureaucratic guidance and spur operational mechanisms toward that shared objective.

Box 1. Keeping U.S.-UK-EU Relations Strong and Sturdy

Brexit is a defining moment not only for United Kingdom's relations with the rest of Europe, but for U.S. relations with the EU as well as with London. The EU will feel the UK's loss. British firms have played a disproportionate role in defense, aviation/space, new technologies, education and services that are strategically important to the EU's ability to play a role beyond European shores. Brexit does not just diminish EU capacity; it is one more factor contributing to a Europe that could become even more fractured and anxious. Without determined U.S. engagement, we could see a diminished Britain at arm's length from a more self-absorbed and inward-looking continent less able to make meaningful contributions toward shared objectives. The Biden administration should avoid the previous administration's false choice of elevating U.S.-UK ties over U.S.-EU relations. It should also resist the temptation to punish the UK for its Brexit choice, which would harm U.S. interests. Instead, the three partners have a shared interest in ensuring that each leg of the transatlantic stool – U.S./UK, U.S./EU, and UK/EU – remains strong, sturdy and united. Many of the recommendations made in this report could be extended to include the United Kingdom.

Create a U.S.-EU Resilience Council to operationalize this initiative and serve as a cross-sector forum for strategic deliberations about threats, vulnerabilities and response and recovery capacities. This group would ensure coordination across existing work within established but sector-focused and often stove-piped bureaucratic agencies.

Develop a Critical Infrastructure Security Action Plan to serve as a roadmap towards implementation. This would include a common threat assessment to guide action and prioritize attention to key vulnerabilities. Linkages could be made to NATO's own resilience baseline requirements.

Improve coordination among relevant operations centers with tasks for common early warning, situational awareness and crisis coordination support. Such objectives would

require regular exercises among relevant officials to become familiar with procedures and protocols for working together, and to standardize technology. The operational centers and their staffs need to be stress-tested together at regular intervals.

Take up the EU's offer to cooperate on cybersecurity capacity building, situational awareness and information sharing, including possible restrictive measures against attributed attackers from third countries. Data-sharing and mutual assistance for real-time responsiveness to cyber-threats will be increasingly essential in a world characterized by the growing use of sophisticated artificial intelligence (AI) to penetrate often vulnerable systems. It would be a concrete expression of a Transatlantic Solidarity Pledge. A coordinated approach to strengthening the resilience of critical infrastructures would not only

benefit the transatlantic economy, it can ensure that our shared values are the engine powering the upcoming transition from a world of “openness at all costs” to one in which trusted infrastructures protect critical flows from disruption and attacks.

Bolster cooperation with the private sector.

Effective resilience requires engagement by the private sector, which owns most transnational infrastructures and movement systems critical to essential societal functions. U.S.-EU efforts in this area have been uneven at best. One model might be Information Sharing Advisory Councils, which are sector-based entities established by critical infrastructure owners and operators to foster information sharing, situational awareness and best

practices about anticipating and addressing physical and cyber threats and disruptions.

Use the OECD High Level Risk Forum to bolster long-term knowledge-building and standards-setting efforts. Several policy forming working groups are active on topics of high relevance to strengthening cross-border resilience. The United States, the EU and other partners could use these more informal settings to find consensus around key concepts and main directions for this primarily, but not exclusively transatlantic work. The OECD has a proven track record in such consensus-based policy forming processes in several other policy areas.



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III. ADVANCE A TRANSATLANTIC DIGITAL AGENDA¹⁰

The COVID-19 pandemic has amplified and accelerated the many ways the digital revolution is shaking and shaping the way we live, learn, work and play. This seismic shift is transforming entire segments of the transatlantic and global economies. It holds untold promise for human health and wealth, business efficiencies and simple ease of life, even as it raises profound ethical, moral and legal questions.

The United States and the European Union bear particular responsibility to define the digital world. First, the transatlantic theatre is the fulcrum of global digital connectivity. Transatlantic flows of data continue to be the fastest and largest in the world, accounting for over one-half of Europe's global data flows and about half of U.S. flows. North America and Europe generate about 75% of digital content for internet users worldwide. Transatlantic cable connections are the densest and highest capacity routes, with the highest traffic, in the world. The United States and Europe are each other's most important commercial partners when it comes to digitally-enabled services. Second, as the EU paper notes, the digital revolution is about more than hardware and software: "it is also about our values,

our societies and our democracies." Digitally-enabled flows are becoming the world's operating system, the plumbing that channels what we need to where we need it, the values that inform it, the principles that make it work, the standards that make it safe, and the models of production and service that render it effective and efficient.¹¹

These insights have informed the EU's offer to develop a "transatlantic technology space" that "should form the backbone of a wider coalition of like-minded democracies with a shared vision on tech governance and a shared commitment to defend it." The EU proposes to establish a new EU-U.S. Trade and Technology Council; to create a specific dialogue on the responsibility of online platforms and Big Tech; to work together on fair taxation and market distortions; and to develop a common approach to critical technologies including AI, data flows, and cooperation on regulation and standards.

There is much to be welcomed in the EU's offer. Nonetheless, prospects for such initiatives must be assessed against a series of digital disconnects that have roiled U.S.-EU relations in recent years.

Box 2. Security and Defense

The EU paper notes that “Europe and the US face a growing number of serious transnational threats, from hybrid and military threats, violent extremism and global terrorism, to the proliferation of weapons of mass destruction.” It wants to strengthen transatlantic and international security, starting with a new EU-U.S. Security and Defense Dialogue “based on a shared strategic vision,” including transatlantic cooperation in crisis management, military operations and bilateral security matters. In parallel, the EU proposes to work together “to promote an ambitious international arms control and disarmament agenda.”

The Biden administration should welcome EU efforts to develop greater capabilities that can contribute to greater security across the continent and beyond. For years the United States has prompted European partners to improve their defenses while minimizing wasteful duplication caused by Europe’s fragmented defense industry. A more capable Europe is a low-cost opportunity to remove a needless thorn in the transatlantic relationship and focus the U.S.-EU and NATO-EU relationships on challenges ahead. The United States has a vested interest in its European partners doing more for their own defense, and in leveraging additional resources and capabilities in common cause. Priority areas include countering hybrid dangers, building resilience against disruptive threats to critical societal functions, facilitating military mobility, deploying additional European defense resources to its eastern flanks, to the Sahel and the broader Middle East, regulating flows of people in the Mediterranean, interdicting drugs and illicit materials, and fighting terrorism. The United States should support investments that can enhance EU capabilities to tackle security threats without needing to ask NATO or Washington to do it for them.

A more capable EU does not necessarily mean a less effective NATO, nor do greater EU efforts mean the EU is building its own army separate from NATO. The two organizations share 21 common members. Each country’s military strength is developed primarily on a national basis. When those forces can be deployed for common purposes, via NATO and/or the EU, this helps avoid renationalization of European defense. Moreover, such critical capabilities as airlift, medevac and air refueling are too expensive for even middle-size European countries to procure and maintain alone; projects like the European Air Transport Command that facilitate effective pooling and sharing are force generators. Closer NATO-EU relations are important to deal with today’s complex challenges, which include military, political and economic elements. Stronger European national forces, better European infrastructure, and more resilient European societies are all good things for the United States and for NATO. North American and European leaders should forge a more synergistic partnership between these two institutions, underpinned by a reinvestment in our premier Alliance and a more effective U.S.-EU strategic partnership.

These include differences over privacy rules, digital services taxes, antitrust laws, efforts to address dis- and mis-information through digital channels, contrasting approaches to 5G regulation, and the EU's proclaimed ambition to strengthen its "technological sovereignty," which aims in part to reduce European dependence on U.S.-based cloud operators. In addition, the European Commission has advanced major initiatives through its Digital Services Act and Digital Markets Act that could create additional complications for a new U.S. administration seeking to establish its footing in its first year in office.

Despite these irritants, there are sufficient complementarities in U.S. and EU approaches to warrant intensified efforts at a more forward-looking approach to digital issues. As the EU paper notes:

"Our shared values of human dignity, individual rights and democratic principles make us natural partners to harness rapid technological change and face the challenges of rival systems of digital governance. This gives us an unprecedented window of opportunity to set a joint EU-US tech agenda. This reflects the growing convergence of views on tech governance between Europe and the United States and the fact we are facing common challenges in managing the digital transition of our economies and societies."

Address key digital disconnects. A number of political landmines will need to be cleared before a positive U.S.-EU digital agenda is likely to take shape.

- ***Collapse of the U.S.-EU Privacy Shield.*** In July 2020 the Court of Justice of the European Union (CJEU) invalidated the Privacy Shield framework that regulated transatlantic flows of personal data for commercial purposes. This re-opened

bitter transatlantic disputes over privacy protections and further chilled transatlantic economy. Unless addressed, it could derail efforts to advance a positive U.S.-EU agenda. Another re-negotiation is unlikely to resolve the issue, since further court cases are pending, and the CJEU has made a determination that U.S. domestic laws do not provide adequate protections. U.S. codification of existing privacy laws might help, but the dispute centers on basic differences in U.S. and EU legal regimes, which are not easily amenable to diplomatic fixes.

- ***Taxation on digital services.*** The European Commission, pushed by a number of member states, is determined to move in the direction of imposing a bloc-wide tax on digital services unless the new U.S. administration signs up to a global deal to rewrite rules for cross-border digital taxation under the auspices of the OECD by mid-2021. The OECD has warned that failure to strike that deal could trigger a trade war that could lop an additional point off global GDP – a further drag on economies struggle to recover from the pandemic-induced recession. The U.S. Trade Representative has determined that digital services tax regimes in some EU member states discriminate against U.S. companies; it could impose tariffs on those countries, inviting further escalation by the EU. A multilateral deal is still possible in 2021, but tensions are running high.

Take up the EU's offer to intensify cooperation on digital supply chain security, including through objective risk-based assessments, pressing for secure 5G infrastructure across the globe, and opening a dialogue on 6G. European companies such as Nokia and Ericsson, who jointly represent

25% of the Standard Essential Patents, could step up cooperation with American companies like Qualcomm, to boost deployment of 5G and develop standards and technologies for the 6G era, on which research and development has already started.

Take up the EU's offer to work on a Transatlantic AI Agreement to set a blueprint for regional and global standards aligned with our values that can facilitate free data flow with trust. Besides cooperating in the context of the Global Partnership on AI, as well as in the G7 and G20, the United States and the EU could join forces to boost R&D on AI applications and techniques that are compatible with users' rights to data protection and privacy (e.g. federated machine learning); as well as on "AI for good" (e.g. in AI applications oriented towards sustainable development, including climate policy). Cooperation on AI is possible also in key regulatory areas such as risk classification and responsible AI development. Alignment on conformity assessment, risk classification and mitigation approaches could foster the creation of a transatlantic and global market for certified, audited AI products.

Launch an EU-U.S. Dialogue on Data Governance. Concepts and structures designed to deal with the analog industrial world are inadequate for dealing with the digitally interconnected world. Industrial-era regulatory frameworks must evolve to set behavioral guidelines for the digital era. The challenge for the digital era is the development of a regulatory environment that is flexible enough not to inhibit innovation while enforceable enough to protect competition and consumers.

Despite ostensibly shared interests, the United States and the EU have taken different approaches to data governance, and have failed to address these differences in any systematic or effective way. At times this has generated acrimonious disputes that have weakened both sides of the Atlantic. The United States and the EU should exchange views on how best to protect the public interest

and uphold shared values while facilitating the promise of innovative digital economies. The EU has prioritized discussions on the responsibility of online platforms and Big Tech. The United States is likely to want to discuss the responsibility of democracies to avoid protectionist temptations to use discriminatory regulation as a tool to generate competitive advantage. It will also want to address ways to prevent our current Internet infrastructure – technically unified and globally interconnectable – from fragmenting into "technospheres of influence," each based on different approaches to data governance, which could empower authoritarian states.

These topics are continually discussed at multiple independent conclaves, as well as through informal exchanges such as the International Competition Network. There is, however, an absence of a more formally organized opportunity for policymakers on both sides of the Atlantic to identify the promises and perils of the digital economy, to better understand diverging perspectives, and to seek common ground. An EU-U.S. Dialogue could usefully address four prominent issues:

- **Data governance and flows.** The United States should take up the EU's offer to intensify cooperation to facilitate the free flow of data with trust. In particular, there is potential for greater U.S.-EU cooperation on ensuring reciprocal access to data spaces, in particular those related to healthcare, agriculture, manufacturing and services, as well as to the emerging EU data space for the Green Deal. Maximizing the quantity and quality of data available for key machine learning applications "for good" could be an important pathway for enhanced transatlantic cooperation. A dialogue on data governance should also address EU understanding of what it calls "technological sovereignty," a nebulous term that some in the United States fear could be interpreted

and implemented in protectionist ways. There is also need to discuss how non-EU companies may participate in the evolution of the EU's "federated cloud" project, based on the GAIA-X Franco-German initiative.

- ***Platform regulation and antitrust law.*** Until now the United States and the EU have approached these issues in different and sometimes contradictory ways. On each side of the Atlantic there is growing momentum to develop a regulatory framework for platforms, yet differing legal regimes are likely to complicate matters. Upcoming European proposals, including a "new competition tool" expected in 2021, move in the direction of tackling specific cases of "gatekeeping" or "intermediation power," that could allow the imposition of remedies even in the absence of proven abuses of market power. This is likely to be of considerable concern from a U.S. perspective. An ongoing dialogue would be useful to clarify perspectives and seek areas of commonality.
- ***Online content and the protection of democracy.*** Both sides of the Atlantic share an interest in the protection of the democratic process, including tackling dis- and mis-information and specific emerging

practices such as deep fakes. This shared objective could be part of a dialogue on the responsibility of platforms to provide greater transparency of their content moderation rules and procedures, and for algorithmic take-down of hate speech and fake news, which would benefit from a coordinated transatlantic approach. Such an effort would also achieve more effective results at the global level, addressing situations in which authoritarian regimes weaken or disregard human rights protections.

- ***Standardization and Internet governance.*** Transatlantic dialogue is needed to avoid the splintering of Internet governance and architectures, as China, Russia and other regimes wall themselves from the free flow of information while seeking to bend digital technology to their economic and ideological benefit. For instance, positions expressed by Chinese companies, which invoke changes in the Internet Protocol, deserve careful consideration as they could affect the governance of the future Internet.



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IV. MEET THE CLIMATE CHALLENGE THROUGH ENERGY AND ECONOMIC OPPORTUNITIES¹²

President Biden has returned the United States to the Paris Climate Agreement and the UN Framework Convention on Climate Change process, and is primed to set a U.S. goal of carbon neutrality by 2050, which mirrors the EU's own target. He has appointed former U.S. Secretary of State John Kerry as special U.S. presidential envoy for climate—a new cabinet-level post. He has made it clear that he intends to engineer a “green” economic recovery from the pandemic-induced recession. These are all early indicators that working with Europe and other international partners will be fundamental to the Biden administration’s climate and energy policies.

Generate a Green Recovery and a Transatlantic Green Deal. The climate and energy transitions underway are about much more than the environment. They herald a fundamental transformation that promises to make our societies stronger, safer and more resilient through economies that can weaken the link between the production of wealth and the consumption of resources. This transformation will not happen overnight, yet it can be accelerated to the extent that climate and energy goals can be integrated

with plans to boost economic recovery, jobs, growth and a just transition, both at home and abroad. Effective green recovery plans have the potential to boost income, employment and GDP better than traditional stimulus measures, while also reducing emissions.¹³ If properly deployed, trade policies can serve as additional levers of the climate and energy transition and can significantly contribute to meeting emission reduction targets. This integrated approach should be woven into all areas of U.S.-EU cooperation.

Enhance stakeholder engagement. Because green recovery plans and climate and energy transformations are so fundamental to each of our societies, they must be grounded in extensive stakeholder engagement on each side of the Atlantic. Initiatives must go beyond formal U.S.-EU channels and individual national government actions and engage regional, state and local actors, NGOs, and the private sector. Such engagement is also an important safeguard to ensure momentum is not dependent on any particular governments or individuals. The EU should continue and reinforce its efforts to forge coalitions with like-minded

U.S. governors, mayors and other leaders, just as U.S. climate and energy diplomacy should engage societal actors across the European Union. The parties should prioritize inclusive policy dialogues with all stakeholders, including those who are less convinced of the need to act on climate change or fear that they could lose out in the energy transition.

Mobilize the transatlantic business community. Private business will ultimately make the investments, create the markets and implement the technologies needed to transform the energy sector. U.S. and European firms are deeply embedded in each other's traditional and renewable energy markets – through trade, foreign investment, cross-border financing, and collaboration in research and development. European companies have been among the largest investors in the U.S. energy economy. U.S. companies in Europe have become a driving force for Europe's green revolution, especially through the addition of wind and solar capacity on the continent. Since 2007, U.S. companies have been responsible for more than half of the long-term renewable energy agreements in Europe.¹⁴ U.S. companies account for four of the top five purchasers of solar and wind capacity in Europe. U.S. companies are the largest overall source of onshored jobs in Europe, just as European companies are the largest source of onshored jobs in the United States.

Identify and facilitate pathways to Global Net Zero. Currently over 125 countries, covering two-thirds of the global economy and over half of global greenhouse gas emissions, have adopted, announced, or are considering a pledge to achieve net-zero emissions by 2050. As the EU paper states, "A shared transatlantic commitment to a net-zero emissions pathway by 2050 would make climate neutrality a new global benchmark in the run up to COP26, the next UN Climate Change Conference, to be held in Glasgow" in 2021. Yet setting this high bar, while welcome, belies the fact that few countries are on pace to cut emissions

at the scale and pace needed to meet the 2015 Paris Agreement goals, much less reach global net zero. Scientists say that if the world is to have a reasonable chance of keeping global warming to 1.5 Celsius, the 189 signatories to the Paris Agreement will need to cut emissions every year until 2030 by the same amount carbon emissions fell in the pandemic-plagued recession year of 2020. That seems unlikely if economies return to 'business as usual' once the pandemic recedes.¹⁵ The sober reality is that the COP process itself is proving to be sluggish and unwieldy, crowding out opportunities for major emitters to align and advance policies that make global net zero a realistic goal. A reinvigorated transatlantic climate partnership will not only need to work out a joint approach to improving U.S. and EU climate commitments, consistent with a goal of net zero carbon emissions by 2050 and a timetable with clear benchmarks to achieve that ambition, EU and U.S. leaders will need to facilitate multiple policy pathways, beyond and alongside the COP26 process, that can take the world to net zero emissions. That could include a renewed Major Economies Forum on Climate Change, further ambitious efforts in the G7, G20, and other venues, as well as enhanced work with the private sector and among international financial institutions.¹⁶

Cooperate on monitoring and reducing methane emissions. Methane is the main ingredient in natural gas. It is a far more powerful greenhouse gas than carbon dioxide and is responsible for perhaps a quarter of the world's warming. The EU has adopted a strategy to cut methane emissions that will include an international observatory to collect, verify and monitor global methane emissions data. The United States should indicate willingness to work with the EU to reduce methane emissions, and to join the international observatory.¹⁷

Phase down the use of hydrofluorocarbons, the climate-changing gases used in air conditioners, refrigerators, and many other applications. The

United States Senate should ratify the Montreal Protocol's Kigali Amendment, which has been signed by over 120 countries, including America's European partners. If commitments under the Kigali Amendment are met, the world will avoid 70 billion tons of CO² equivalent by 2050, and almost half a degree centigrade of warming by the end of this century. Prospects are promising: the American Innovation and Manufacturing (AIM) Act, ratified into U.S. law with bipartisan support in late 2020, aims to cut U.S. production and use of these chemicals by 85% over the next 15 years. If the United States succeeds, it looks to create 33,000 jobs, spur \$12.5 billion of new investments in the U.S. economy, and shrink U.S. annual heat-trapping emissions by the equivalent of around 900 million tons of carbon dioxide over the next 15 years – more than Germany's total annual emissions.¹⁸

Take up the EU's offer to form a Transatlantic Green Tech Alliance to create lead markets and cooperate on clean and circular technologies, such as renewables, grid-scale energy storage, batteries, clean hydrogen, and carbon capture, storage and utilization. The United States and the EU should recommit to the 2015 Mission Innovation global initiative and clean energy R&D investment targets to underwrite the development of new, commercially viable technologies, and work to expand participation by other countries. Such arrangements would allow the EU and the United States to pool scarce research resources, encourage faster and broader roll out of new technologies, promote reliable and affordable energy supplies, and rapidly develop common standards for new technologies for further dissemination. The United States and the EU can drive the commercialization of new clean energy technologies through streamlining and standardizing licensing requirements and implementing complementary policies that unlock demand for these innovations. For example, coordination on hydrogen safety, codes, and regulatory standards will create certainty for investors and a path forward

for integration with existing technologies, such as natural gas pipelines.

Take up the EU's offer of a Transatlantic Green Trade Agenda. The most immediate challenge will be U.S.-EU consultations on carbon border adjustment mechanisms (CBAMs)¹⁹ – taxes on imported goods based on their attributed carbon emissions – given that the European Commission plans to unveil its own CBAM proposal by summer 2021. Because the EU and the United States are each other's largest commercial partners, driven by significant mutual investments forming dense interlinkages across both economies, it will be important for the parties to work together to devise WTO-compatible CBAMs. Transatlantic alignment could set a global template for such measures; transatlantic divergence could further disrupt the transatlantic economy and derail cooperation on a host of other issues. As part of this effort, the United States and the EU will need to develop standards for measuring and verifying carbon emissions, especially in natural gas production and transport. Standardized metrics will encourage U.S. exporters to expand their efforts to reduce methane emission, many of which are already happening voluntarily. Furthermore, standards and metrics transparency could shift the European conversation around fracking towards a constructive dialogue about emissions reductions across the lifecycle of natural gas. The United States should consider the EU's offer of a Trade and Climate Initiative within the WTO and measures to avoid carbon leakage. Energy should also be a key element of a transatlantic trade and regulatory agenda that seeks to align standards in areas such as e-mobility and energy efficiency, reduce tariff and non-tariff barriers to clean energy goods and services, and create mechanisms for mutual recognition of regulatory processes regarding energy innovation.

Take up the EU's offer to design a regulatory framework for sustainable finance.²⁰ Not only

Box 3. Dealing with China

China looms large on the U.S.-EU agenda. The two parties would do well by elevating the new EU-U.S. Dialogue on China as a strategic initiative, as the EU paper notes, “for advancing our interests and managing our differences.” A useful start would be to discern where the two partners view China as a potential partner, a competitor, and a systemic rival – three frames the EU uses in its approach to China.

China as a Potential Partner: Areas might include climate change and energy transformation, WTO-compliant commercial activities, health, non-proliferation efforts, including with Iran and North Korea, anti-piracy activities, and UN peacekeeping.

China as a Competitor: The EU shares U.S. frustrations with China’s cybertheft and disruption activities, its assaults on intellectual property, its efforts to pressure companies into technology transfer arrangements, market-distorting subsidies, shutting out non-Chinese digital companies from the Chinese market, poor implementation of its WTO obligations, and its overcapacity in steel and potentially autos, robotics and other sectors of the economy. Severe Chinese restrictions on investment by U.S., European and other non-Chinese companies in services, energy, agriculture and high-tech sectors are further shared concerns, despite the U.S.-China Phase 1 deal and the EU-China Comprehensive Investment Agreement. Both are wary of growing investments by state-owned Chinese firms in strategic infrastructure and technologies in Europe, the United States, and other countries.

China as a Systemic Rival: The EU has used this phrase but its thinking on this aspect of relations with China has been less developed than in other areas. The United States, in turn, has devoted considerable attention to this challenge, which includes Chinese efforts to question basic norms of the rules-based international order, create alternative institutions, define new international standards in a host of international bodies, bully non-compliant actors, and spread its model of digital illiberalism. Deepening China-Russia ties bring additional security and technology considerations into play.

U.S.-EU discussions of the China challenge have been fraught at times, in part because each partner has expressed concerns about activities undertaken by the other that are less directly related to China but affect their ability to cohere around China-related issues, for instance transatlantic digital disconnects and trade and investment squabbles. Those topics are covered elsewhere in this report.

A more strategic U.S.-EU Dialogue is likely to inform joint or complementary activities to address China’s rise. The two parties should complement their own dialogue by engaging additional like-minded democracies, including the UK, Canada and partners in the Indo-Pacific. Priorities include:

- mobilizing a coalition of WTO members to support a comprehensive WTO case highlighting China’s violation of its WTO obligations;
- joining the EU’s case challenging China’s intellectual property practices;
- extending U.S.-EU technology alliances suggested in this report to additional techno-democracies;
- establishing among such participants multilateral export controls on critical technologies.

does climate change pose serious emerging risks to U.S. and European financial systems, well-aligned regulatory and supervisory frameworks are needed to ensure that financial markets channel resources efficiently and competitively to activities that catalyze societal and economic resilience and the transition to a net-zero emissions economies. The EU and the United States are the top two markets in the world for sustainable finance, yet their efforts have not been aligned, amidst growing signs of fragmentation across the globe when it comes to such areas as prudential regulation and supervision, market and conduct regulation, taxonomy and disclosure. The EU and the United States should consider aligning their efforts to mobilize broader and more uniform mechanisms – within the G7, the G20, the Financial Stability Board, the Central Banks and Supervisors Network for Greening the Financial System (NGFS), and other global standard setters and networks, such as the Coalition of Finance Ministers for Climate Action, and the Sustainable Insurance Forum (SIF). Agreement on carbon pricing that is fair, economy-wide, and effective in reducing emissions could be the single most important step to manage climate risk and drive the appropriate allocation of capital.²¹

Make progress on climate risk. Financial regulators in the United States and the EU can power multilateral efforts to establish global standards for financial disclosures related to climate risks. Currently, climate risk disclosures lack consistency, comparability and reliability. Standardized disclosure would improve capital market efficiencies, unlock sustainable, inclusive economic growth, and enable capital markets to become a powerful force driving improved climate outcomes. The United States and the EU should urge companies to report climate information in line with the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) and the Sustainability Accounting Standards Board.²²

Combine forces to support a just transition around the globe, especially among those countries

least able to take climate action on their own. This work should encompass coordinated financing strategies, energy literacy initiatives, adoption of appropriate technologies, and standardized metrics for quantifying a just transition. As the EU paper notes, both parties will need to make significant contributions to the pledge by developed countries to jointly mobilize \$100 billion per year for climate action in the developing world.

These activities can and must be integrated into more effective cooperation on development and humanitarian assistance. The United States and the EU together are by far the world’s leading providers of both categories of support, and account for the bulk of philanthropic and investment flows with the developing world. Past efforts to improve cooperation and effectiveness have met with uneven success. Yet the coronavirus crisis and attendant global slowdown have squeezed aid commitments and humanitarian resources. We have a shared interest not only in cooperating and maximizing our capacities, but in widening the donor base and ‘globalizing’ the development assistance and humanitarian enterprises, while integrating climate considerations.

Secure the flow of critical raw materials. Many advanced technologies are manufactured using critical raw materials. These include a group of 17 rare earth elements, together with lithium and cobalt, that are essential to clean energy, the supply chains that drive most digital high-tech products, and many defense applications. Geopolitical competition is becoming increasingly entwined with access to critical materials because they are indispensable to the next global economic transformation, are often highly geographically concentrated, and are vulnerable to disruption. China now has chokehold capacity over a range of critical materials, including 85% of the world’s capacity to process rare earth elements into material inputs required for manufacturing smartphones, electric cars, satellites, fighter planes and other high-tech products. China’s market dominance enables it to control prices and

pressure other countries that adopt policies not to Beijing's liking. The United States and the EU should work together and with other democratic market economies to forge secure supply chains, recycling, and environmentally-sound domestic development of these critical materials.²³

Enhance energy security. Dealing with climate is inextricably linked to energy security. Europe's energy security, in turn, is deeply intertwined with U.S. economic and security interests and innovation policies. As European domestic resources begin to deplete, the EU is becoming the only major economic entity without access to domestic fossil fuel resources at scale, producing 5% and consuming 12% of global energy supply. EU reliance on energy imports has increased, now that the UK has left, and as coal and nuclear power plants retire, domestic production declines, the transportation sector's electricity demands grow, and EU states seek to meet environmental targets under the Paris Agreement, the EU's Green Deal framework, and the European Recovery Plan from the pandemic. By 2025 additional energy imports will need to fuel up to one-third of the EU's anticipated consumption. In addition, energy connectivity voids exist across Central, Eastern, and Southeastern Europe.

Transatlantic energy security will be reinforced through continued work on energy diversification. Natural gas will continue to play an important role in the European energy mix in the short to medium term, even as the United States and the EU work together to phase out use of fossil fuels in their own economies and globally. Expanded work on diversification of energy routes and sources can reduce emissions and bolster energy security on both sides of the Atlantic. The United States has emerged as Europe's third largest supplier of LNG, with a 12% share of EU LNG imports in 2019. The transatlantic allies have a unique opportunity to work together on managing key natural gas market trends driving the shift toward more liquidity, transparency, and global competition. U.S. LNG

exports to Europe have played an important part in reducing Russian energy leverage in the region. The United States should continue being a reliable supplier of LNG while expanding cooperation on resource diversification in other areas. The United States and the EU can further enhance energy diversification through a coordinated financing strategy to support commercialization of new technologies and the development of electricity and natural gas interconnections. The U.S. International Development Finance Corporation and Export-Import Bank of the United States, European financing bodies, the Three Seas Initiative Investment Fund and the private sector can address remaining energy security gaps through investments that will contribute to competitive energy markets across Europe.

Address geopolitical energy conflicts. The United States and the EU can amplify their efforts to resolve geopolitical energy conflicts through multilateral institutions. They should continue engagement in the Three Seas Initiative and the East Med Gas Forum, where they are currently observers. Bilateral initiatives, such as the U.S.-Egypt Strategic Energy Dialogue, can be integrated into broader engagement towards resolving disputes over exclusive economic zones in the region. Most importantly, the United States and the EU should develop cohesive climate, energy and trade policies with respect to China and Russia. Part of these efforts should include coordination on sanctions implementation, whether with respect to Iran, Venezuela, or other places in the world. Bipartisan U.S. legislation imposing sanctions involved in the Nord Stream 2 energy project in the Baltic Sea could disrupt progress on reinvigorating U.S.-EU ties absent a proper dialogue on a path forward.

Take up the EU's offer to address the increasing links between climate change and defense, both abroad and at home. Climate change is a threat multiplier that can exacerbate political and societal tensions, limit the availability

of food and water, undermine human health, affect global maritime security, displace people, degrade infrastructure and economies, compromise biodiversity, and exacerbating extreme weather. It is challenging military missions, operational plans and installations. Moreover, the carbon footprints of North American and European militaries are massive. The U.S. military alone releases more greenhouses gas than 140 countries, emitting more than 25,000 kilotons of carbon dioxide a year. Most military infrastructure is not energy efficient; heating accounts for a third of EU armed forces' energy consumption.²⁴

- ***Advance and align sustainability policies and practices for armed forces within individual countries, within and between NATO and the EU, and between the United States and the EU.*** Reducing energy demand and increasing energy resilience is essential for the armed forces to ensure a high level of readiness and sustainability. Canada, and a number of other NATO allies that are also EU members, have adopted environmental sustainability policies for their armed forces that could offer good practice. Various initiatives are underway within NATO and the EU, yet efforts are scattered and sometimes duplicative. NATO and EU forces should accelerate their efforts to go green. EU-NATO staff-to-staff dialogues can explore potential areas of cooperation linked to climate and defense. Washington and Brussels should include issues related to climate and security as part of the EU's proposed U.S.-EU Dialogue on Security and Defense.
- ***Create a Center for Excellence on Climate and Security*** to enhance situational awareness that would enable the EU, the United States and other NATO allies to anticipate, adapt, and act to meet the

security challenges posed by climate change. The independent NATO Reflection Group commissioned by NATO Secretary General Stoltenberg has recommended a NATO Center along these lines. Instead, an independent center in which both NATO and the EU participate, similar to the model established by Finland's Center of Excellence for Countering Hybrid Threats, would offer greater synergies and facilitate NATO-EU cooperation.

- ***Use the purchasing power of the military*** to fuel investments in cleaner energy, infrastructure and preventive technologies to mitigate the effects of climate change.²⁵
- ***Initiate a NATO-EU effort through which military establishments can assess and manage climate-change-related vulnerabilities to acquisition and supply.***

Reenergize and revamp the U.S.-EU Energy Council as a U.S.-EU Climate and Energy Council, to serve as an overarching platform for transatlantic climate and energy work, including on such priorities as a Transatlantic Green Deal, pathways to global net zero, a green trade agenda, energy efficiency and security, renewable energy deployment, carbon capture and storage, reduction of methane emissions and work on new technologies. The U.S. administration should fold the more limited Partnership for Transatlantic Economic Cooperation (P-TEC) into a U.S.-EU Climate and Energy Council and work with the EU to advance interconnectivity projects across Europe, including through the U.S. International Development Finance Corporation and support for the EU's Projects of Common Interest, including for connectivity projects under the Three Seas Initiative.



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V. PROMOTE JOBS AND GROWTH, INCLUDING THROUGH TRADE AND INVESTMENT²⁶

The pandemic-induced devastation of job markets in the United States and the EU has reinforced widespread concerns about the uneven benefits of trade and technological change. U.S.-EU economic initiatives must bring tangible gains to broad parts of the population on each side of the Atlantic.

Fortunately, the case for an upgraded and updated transatlantic economic partnership is more compelling than ever. Despite the rise of other economies, the United States and Europe remain each other's most important and profitable commercial markets. Europe and the United States are each other's largest trading partner, greatest source of foreign investment, greatest market for services, most intertwined digital economy, and largest source of onshored jobs. The transatlantic economy generates \$5.6 trillion in total commercial sales a year. Sixteen million workers on both sides of the Atlantic owe their jobs to a healthy transatlantic economy. It is the largest and wealthiest market in the world, accounting for half of total global personal consumption and roughly one-third of world GDP in terms of purchasing power. Europe and the United States are also the major investor in each other's innovation economies. Bilateral U.S.-

EU flows in R&D are the most intense between any two international partners.

Despite these dense interlinkages, the two parties have struggled to harness the full potential of the transatlantic economy to generate jobs and growth. Their most ambitious initiative, the Transatlantic Trade and Investment Partnership (TTIP) negotiations, made respectable progress, but ultimately ran out of gas when the Obama Administration ended in January 2017. Given the multitude of bilateral irritants that have accumulated since then, there is understandable temptation to keep transatlantic negotiations in the deep freeze. The obstacles may seem too high, and the incentives too low, for either side of the Atlantic to invest much political capital in any major transatlantic economic initiative. Yet an ambitious transatlantic trade and investment agenda is important to the ability of the United States and the EU to build a broader agenda, because if they prove unable to resolve bilateral frictions and clarify the terms of their own extensive commercial relationship, it will be difficult to find common ground on other issues. Unresolved trade, tax and privacy issues are more likely to fester than remain frozen. Washington and Brussels will be distracted

and diminished by their trade squabbles as China rises. A Transatlantic Green Deal could be derailed. The WTO could be at risk. Economic anxieties and political prejudices will be exacerbated. The result would be the triumph of lowest-common-denominator standards for the health, safety and welfare of Americans and Europeans alike. Standing still means losing ground.

The two parties must recommit to a positive trade and investment agenda, even as they focus that agenda on effective ways to render both economies stronger, promote better jobs and generate sustainable growth.

Resolve today's problems. To clear a pathway to a more ambitious agenda, the two sides need to address lingering irritants. The most urgent are the collapse of the U.S.-EU Privacy Shield and tensions over digital taxation, each of which was addressed earlier in this report. They also include the following:

- ***U.S. national security (Section 232) tariffs on steel and aluminum imports and threatened additional measures.*** The Biden administration has signaled that it wants to consult with the EU and other allies on a strategy to address China's problematic trade practices before it decides whether to alter the tariffs imposed by the Trump administration. It might consider converting the tariffs to a short-term safeguard action. This is not an optimal solution for the EU, but could be part of a transitional arrangement if the administration agrees to drop related cases, including on autos, uranium and transformers.
- ***Settle the Boeing-Airbus dispute.*** This sixteen-year fight between the United States and Europe is jeopardizing thousands of jobs on both sides of the Atlantic at a time when the pandemic is wreaking havoc on the airline industry. Airbus vs. Boeing

has become synonymous with Europe vs. America, when in fact the two aerospace industries are deeply intertwined with each other, and each is a major investor and job-supplier on the other side of the Atlantic.²⁷ Dueling tariffs on additional industries are penalizing communities that have little to do with the aerospace industry. It is distracting Washington and European capitals from China's far larger subsidy challenge.

A transatlantic deal does not necessarily mean a complete end to subsidies for a strategic industrial sector such as aerospace. What it does mean is agreement on what might constitute WTO-compliant support for such industries, and establishing a U.S.-EU-UK dispute settlement mechanism to regulate irregularities. The parties could then leverage the strength of the transatlantic economy – the largest in the world – to address China's own questionable activities.

Separate regulatory cooperation from market access negotiations. Negotiating mutual recognition of essentially equivalent norms and regulatory coherence across a plethora of agencies rendered TTIP enormously complex. It gave the impression that trade negotiators might be prepared to bargain away basic rules and standards that societies on each side of the Atlantic had devised through their respective democratic procedures. TTIP's complexity created a deep gap between the aims of the partnership and what ordinary citizens believed it would produce. Any new transatlantic initiative must be grounded in a fundamentally new narrative and approach.

- ***Bilateral regulatory cooperation*** should be about helping regulators become more efficient and effective at protecting their citizens in ways that are democratically legitimate and accountable, not about removing or reducing non-tariff barriers to

trade. It must be help regulators do their job; positive economic gains that might result would be important, but secondary.²⁸ Such cooperation should be limited to regulations and standards that directly apply to goods and services traded between the two parties. Laws and regulations that go to wholly domestic matters, such as those on working hours, wage levels, air pollution standards, etc., should be outside the scope of any general disciplines on regulatory cooperation. Such cooperation should also apply solely to executive agencies, not legislative bodies.

Fortunately, U.S. and EU regulators already found common ground on a number of important good practices; made progress in developing approaches for facilitating forward-looking regulatory cooperation in areas of common interest; identified possible mechanisms for reducing unnecessary burdens in transatlantic trade arising from redundant or duplicative product testing and certification requirements; negotiated provisions that would facilitate trade, subject to sanitary and phytosanitary import checks; and explored in detail ways to enable stakeholders to participate more fully in the development of product standards across the Atlantic. Sectors that show promise for U.S.-EU agreement include automotive safety regulations; unique identification of medical devices; fiber names and labelling, safety requirements, and conformity assessment procedures in the textiles sector; cosmetics; pesticides; chemicals; information and communications technology; engineering; and technical barriers to trade. The U.S.-EU High Level Regulatory Cooperation Forum (HLRCF), established in 2005, could be

revived to allow regulators to oversee such cooperation.²⁹

As the EU notes in its paper, the two parties should also systematically align positions within international standard setting bodies. Promoting regulatory cooperation and coherence aligns with our shared interest in setting high standards on the protection of the environment, labor and intellectual property, particularly to confront the growing economic weight of China.

Reach Transatlantic Zero. The United States and the European Union should seek a Transatlantic Zero tariff agreement that would eliminate all duties on traded industrial and agricultural goods and services. Given that most U.S.-EU tariffs are low (1-4%), a tariff-free agreement could be achieved relatively quickly, would translate into millions of new jobs across the North Atlantic space, and improve both earnings and competitiveness for many companies, particularly small- and medium-sized enterprises. Because the volume of U.S.-EU trade is so huge, eliminating even relatively low tariffs could boost trade significantly. And because since a substantial portion of U.S.-EU trade is intra-firm, i.e., companies trading intermediate parts and components among their subsidiaries on both sides of the Atlantic, eliminating even small tariffs can cut the cost of production and potentially lower prices for consumers.

Achieving a “Transatlantic Zero” deal may not be that hard. When TTIP negotiations paused in January 2017, negotiators had already exchanged offers to eliminate duties on 97% of tariff lines. U.S. and EU leverage would be further enhanced if they would be prepared to devise mechanisms by which third countries could join in a U.S.-EU Transatlantic Zero tariff deal or in certain sectors of such an arrangement, or devising a uniform set of rules of origin that would apply to all of their preferential

trade agreements, enabling others to access both the EU and U.S. markets by complying with the requirement of either one of them.

- ***Include services with a negative list on all modes of delivery.*** This includes digitally-enabled cross-border trade in services, which has become the most important. Services are the sleeping giant of the transatlantic economy. Most American and European jobs are in the services economy, which accounts for over 70% of U.S. and EU GDP. The United States and the EU are each other's most important commercial partners and major growth markets when it comes to services trade and investment. Deep transatlantic connections in services industries, provided by mutual investment flows, are not only important in their own right; they are also the foundation for the global competitiveness of U.S. and European services companies. Yet protected services sectors on both sides of the Atlantic account for about 20% of combined U.S.-EU GDP — more than the protected agricultural and manufacturing sectors combined. Freeing the transatlantic services economy could be the single most important external initiative the two sides could take to create jobs and spur growth on both sides of the Atlantic. Removing barriers in these sectors would be equivalent to 50 years' worth of GATT and WTO liberalization of trade in goods. Moreover, because the manufacturing and services sectors are increasingly intertwined, liberalization of services trade would enhance the competitiveness of U.S. and European manufacturing firms as well.
- ***Include agriculture,*** which is the thorniest transatlantic trade issue. Both sides will not get 100% tariff and quota elimination, but they can cover the vast majority of

agricultural tariff lines (one third of which are at zero anyway). Where tariffs are high, phaseout periods could be longer. Moreover, European and American agricultural sectors would still remain implicitly protected by a range of non-tariff barriers that are far more important, lessening the political concerns that might accompany a complete liberalization.

- ***Do not include sanitary and phytosanitary (SPS) measures.*** SPS issues – GMOs, chlorinated chicken, beef hormones – can and must be handled separately, clearly outside the trade talks and only by those responsible for food/plant safety.
- ***Do not include investor-state dispute settlement (ISDS) provisions,*** which traditionally are intended to protect foreign investors from predatory expropriation by states, particularly where rule of law, or institutions upholding it, are weak. That is not the case in the United States or in the European Union. A sound alternative is offered by the U.S.-Australia trade agreement, which affirms the sanctity of each party's domestic legal system, and states that investor-state disputes are to be settled within each country's domestic court system. Similar language in a U.S.-EU context would take the steam out of what has become a most contentious issue. The two sides would agree to provide substantive protections (national and MFN treatment on establishment and operation, on a negative list basis; expropriation in accordance with international law, transfers of funds related to the investment) which have never been controversial, but should remove ISDS.

Prioritize help for small and medium-sized enterprises (SMEs). Small and medium-sized

enterprises are the main engines of job creation and innovation on both sides of the Atlantic. Yet only a small fraction of the 50 million SMEs in the United States and Europe engage in commercial activity across the Atlantic. There is much untapped potential here. Under TTIP, Washington and Brussels had already negotiated a dedicated chapter focused on small and medium-sized enterprises, which, among other things, could help them better navigate the transatlantic marketplace through the provision of enhanced online information and new mechanisms for U.S.-EU cooperation. Both sides already identified steps to reduce unnecessarily burdensome requirements and delays at each other's borders. They already identified potential compromises for certain issues so that final agreement could be in sight.

Build a Standards Bridge for industrial products, which would do more for SMEs on both sides of the Atlantic than almost anything else. The two sides should agree to facilitate registration of cases where technical standards on one side meet the technical regulatory requirements of the other.

Stimulate the transatlantic innovation economy. North Atlantic flows in research, development and innovation are the most intense in the world, and essential to such leading-edge sectors as AI, biotechnology, and clean energy technologies, which have the potential to deliver hugely significant economic benefits across both economies. In 2017 U.S. affiliates invested \$33 billion in research and development in Europe, representing 58% of total global R&D expenditures by U.S. companies abroad. R&D spending by European companies in the United States was even higher, totaling \$44 billion, and accounting for 70% of all R&D performed by majority-owned

foreign affiliates in the United States. The United States and the EU could build on links that have been developed between the EU's Horizon Europe program and U.S. research agencies, universities and other institutions. U.S. firms should be able to participate in Horizon Europe innovation programs, and EU firms should be able to participate in the 14 Manufacturing USA Institutes.³⁰ They could affirm earlier joint statements of innovation principles to guide the transatlantic innovation economy and serve as the basis for globally focused cooperation on investment, intellectual property rights, indigenous innovation policy, state-owned enterprise behavior, ICT, raw materials and the adoption by key emerging economies of policies that are supportive of balanced and sustainable global economic growth. Such a process should involve close consultation with business and other stakeholders. They could revive, and consider expanding, their Innovation Dialogue to include other democratic innovation economies.

Take up the EU's offer of joint leadership to reform the WTO. This includes finalizing the appointment of a new Director-General, restoring dispute settlement by reforming the Appellate Body, intensifying US-EU-Japan work on level playing field issues, and bringing forward WTO e-commerce negotiations.

Cut barriers to trade in environmental goods and to services. Negotiations on the Trade in Services Agreement (TISA) and the Environmental Goods Agreement (EGA) can only make headway if the United States and the EU sponsor them and remain aligned. The EGA could reduce tariffs on goods that benefit the environment, contributing to the Transatlantic Green Deal and to sustainable growth. TISA aims to lower barriers to services,

the sector employing the most people in both the United States and the EU, and a key to future U.S. and EU global competitiveness.

Focus on foundational and emerging technologies and national security controls.

The EU's recent recasting of its Dual-Use Export Controls Regulation presents a major opportunity for the two sides to establish an intensive dual-use foundational and emerging technologies dialogue that includes the EU's offer of "a new common focus on protecting critical technologies," and to include necessary intelligence-sharing capabilities to inform both export control and foreign-investment screening activities.

Consider the EU's offer of a Transatlantic Trade and Technology Council, but be open to two separate Councils, one on trade and one on technology. Such a Council could be useful if it brings strategic thinking back into the economic relationship. This was the original vision

for the Transatlantic Economic Council (TEC), the cabinet-level body formed by Washington and Brussels in 2007. Unfortunately, the TEC quickly became mired in intractable bilateral disputes over how chickens should be cleaned and electrical appliances should be approved. By the end of the Bush Administration TEC meetings had become rather moribund, low-level affairs where little was achieved. A reinvigorated Council should include the economic policy principals on both sides, chaired at the Vice President level, with only strategic issues on its agenda. Adding technology issues could give the Council added lift and profile, yet could also dissipate energies, as many technology issues transcend issues of trade and often involve other players; they may deserve their own forum.



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