2023 Young Leaders Conference: Key Issues in Transatlantic Relations

"Navigating the Transatlantic Trade Landscape: Overcoming State Subsidization and Market Challenges for Sustainable Economic Growth"

The global trade environment is at a turning point. There now is a greater focus on supply chain resilience – for instance, through de-risking and the desire for domestic leadership on the green transition. However, strong transatlantic trade is key to prosperity on both sides of the Atlantic. And in fact, deepening trade relations between the US and Europe can still unlock more gains from trade. We acknowledge that subsidies and tax credits have a clear role to play in both fighting climate change and improve national security. But a subsidies "race to the top" could jeopardize the benefits from trade. To drive forward sustainable economic growth – one that is persistent and inclusive – in the transatlantic trade relationship we propose a framework based on three elements:

1) Industrial Policy

Industrial policy has a key role to play in the green transition on both sides of the Atlantic, but has also been a regular irritant in trade relations, e.g. through the U.S. Inflation Reduction Act. The EU's green industrial policy foundation must be boldly reformed in response: we propose a Complexity Reduction Act to simplify the European joint funding landscape, with remaining NextGenerationEU funds potentially repurposed to incentivize private investments. Addressing the pressing challenge of (skilled) labor scarcity is equally vital. A specific suggestion includes an alignment on worker up-skilling and re-skilling by strengthening vocational training – which can also help make growth from trade sustainable and inclusive.

2) Strategic Partnerships

Transatlantic competition for investment risks excessive government expenditure and diplomatic acrimony. We propose a Secure Supply Chains Agreement between the U.S. and EU. It could, first, include a cap limiting aggregate subsidies to firms producing an agreed basket of critical goods. This cap, will limit a transatlantic "race to the top." Second, both sides will commit to public procurement of these critical goods to suppliers in the U.S. or EU and offer equal consumer subsidies to goods produced in either region. Third, the subsidy cap will asymmetrically adjust to encourage (evenly) distributed manufacturing.[1] We also propose that Germany/EU states source long-term gas contracts from the U.S. This would provide a predictable price for energy benefiting both the US and the EU.

3) Trade Infrastructure

The EU and U.S. should automate high throughput ports – accompanied by programs to up-skill and re-skill current port labor to enable port workers to maintain their jobs and mitigate job loss associated with automation. We propose for the EU and the US to create a 30-year plan to modernize ports – focusing on those with the highest share of transatlantic volume. Port terminal automation will reduce the cost of trade, increase efficiency and reduce the environmental impact associated with port expansion. Port workers, ocean carriers, ocean shippers and truckers will all benefit from this by reduced costs of trade, higher efficiency of ports (shorter waiting times and less errors); as a result of higher efficiency, we can slow the physical expansion of ports. To make port modernization a success, a significant investment would be needed (estimated budget approved by both the US and EU for a total of 50bn USD). We also propose engagement with labor unions to provide a comprehensive up-skill or re-skill program to mitigate loss of jobs.

[1] If either the EU or the U.S. held a preponderance of manufacturing capacity in the agreed goods, the subsidy cap would be lowered in the dominant region, redirecting investment to the other. This will ensure employment and growth benefits will be shared, safeguarding political support for future cooperation.