

**SENATE SELECT COMMITTEE ON
CALIFORNIA-EUROPEAN TRADE**

Informational Hearing:

***How European Trade and Investment Creates Jobs and Business
Opportunities in California***

**February 13, 2008
State Capitol, Room 2040
Sacramento, California**

Senator Dick Ackerman, Chair

SENATOR DICK ACKERMAN: I apologize for being late. I was working on a little issue we have around here called the budget. It is not yet resolved.

Today, I'm pleased to introduce the European Union's ambassador to the United States, the Honorable John Bruton, who will be making a special presentation to our committee today on the significance of Europe to California in terms of job creation, trade investment, and joint business opportunities.

A little background on the Ambassador: He began as the European Union's ambassador in Washington, D.C. in November of 2004. Since his appointment as EU ambassador he has met with President Bush, over 200 members of Congress, and many governors, state legislators, and business leaders emphasizing the importance of the U.S./EU relationship in many areas.

He is also the former prime minister of Ireland, serving as prime minister from 1994 through 1997. He helped transform Ireland's economy into the robust Celtic Tiger during which time the Irish economy grew at an annual average rate of 8.7%, peaking in 1997 at 11.11% (and I know; I was there a couple of years ago and it's hard to get into all the pubs over there, so he's doing a very good job). He has

previously served as party leader, as well as Ireland's Minister of Finance, Minister of Industry and Energy, Minister of Trade, Commerce and Tourism, and other posts since he was elected to the Irish Parliament in 1969.

We are very honored to have the Ambassador appear before us today at the Senate Select Committee on California-European Trade to speak about the enormous economic relationship between California and Europe and how to hopefully expand it further.

Please accept our warm welcome to the California State Capitol, and welcome, Mr. Ambassador. (Applause)

AMBASSADOR JOHN BRUTON: Senators, and Members of the Committee. I am very honored to have been given this opportunity of making a presentation. I have made available a rather lengthy paper, which I will not go through, which contains a lot of information that will be of interest to some of those present. And copies of it are available.

I'm honored to be here because of the admiration that I and the citizens of the European Union have for the state of California and this legislature. What the state has achieved in information technology (being the world's leader in information technology); what you have achieved in higher education, where you have some of the best universities in the world (2.5 million students), pioneering research and development being conducted in your universities; what you have achieved in venture capital, where people who wish to establish new businesses can find willing investors, innovative investors, people willing to take risks in this state in a fashion and to a degree that you'll not find in other parts of the world. We admire the leadership that this state has given in the area of climate change, the work of the Climate Action Team, the legislation that has been passed setting limits on emissions and seeking to reduce emissions significantly, and introducing very substantial improvements in energy efficiency; your innovative efforts in the matter of electricity pricing many years ago which have brought about a situation where

emissions per capita in California are the fourth-lowest of all the states of the Union, notwithstanding the very high level of income that is enjoyed in this state. This is the most energy-efficient state per dollar earned in the United States. And we admire, also, your regulatory leadership. There is a reference in regulatory circles to the “California effect.” The “California effect” is the fact that you set higher standards whether it be for chemicals, whether it be for climate or environmental standards, which other states are required to follow. And at a global level, we in the European Union, to some degree, are following that with our legislation on chemicals, for example, which through the Reach Directive is requiring U.S. companies wishing to export to Europe to adopt the same sorts of high standards that have been a feature of legislation here in California

My main purpose and the reason I was invited is, of course, not to speak about these things but to speak about trade and investment opportunities.

First, I may say a word about the relationship between the United States as a whole and the European Union. And then I will refer to the relationship in particular with California.

The European Union and the United States together are just 10% of the world’s population. Ninety percent of the world’s population don’t have the privilege of either being EU citizens or U.S. citizens. But that 10% that do, generate 40% of the world’s trade and enjoy 60% of the world’s income. We are the “haves” in the world of today.

We invest enormously in one another to an extent that could be said that Europeans own a great part of the United States and Americans own a great part of the European Union. Two out of every three dollars that are invested in the United States by countries outside of the United States are invested by businesses originating in the 27 Member States of the European Union. We are by far the biggest investor in the United States, and the United States is by far the biggest investor in the

European Union from outside. There's more European investment in California alone than there is American investment in China. Earnings by U.S. affiliates in Europe are double the earnings of U.S. affiliates in Asia.

It's not just in the mature economies of Western Europe that the United States is making large profits. Large profits are being earned by U.S. investments in Poland, in Hungary, in the Czech Republic, Slovakia and other countries. And, in fact, investment in those countries has tripled in the years between 2000 and 2005.

The European Union's extension of its membership to bring in the countries of Central and Eastern Europe has created an opportunity for United States, for United States companies to invest in a stable environment where EU laws produce predictability and assurance of respect for property rights which has generated enormous income not only for the peoples of those countries but for U.S. corporations.

American companies make three times as much profits from their investments in Ireland (which is one small country in the European Union) as they make from their investments in China. In a country of four million Europeans as against one billion Chinese, three times as much profit are made. And indeed, five times as much profits are made from U.S. investments in the Netherlands (which is a larger population but a smaller size of country even than Ireland) than is made in China.

We are essentially co-owners of one another's economies. What's good for us is good for you. Anything that adversely affects the U.S. economy is bad for Europe. We're like two neighbors on the same street; if one of our houses fall into disrepair that will lead to a reduction in the value of the other's house. We need one another. We have a stake in one another.

Turning, if I may, now to California.

California ranks second in states in the United States (after Texas) as the biggest destination for EU foreign investment. There is \$46 billion

of direct U.S. investment—direct EU investment in the state of California which could be translated into an equivalent of 340,000 jobs here in the state directly attributable to European investment in this state.

Likewise, as far as exports are concerned, the European Union is California's largest export market. California exported \$24 billion worth of goods and services to the European Union in 2006, which supports an equivalent of 490,000 jobs. So, if you put the investment related jobs and the export related jobs together, you have the equivalent of 800,000 jobs in the state of California that are due to the interaction with the European Union.

And I should also mention that after citizens of Mexico, Europeans are the largest number of tourists coming to the state of California. Two million Europeans visited California as tourists in 2005.

It should also be said that notwithstanding the fact that it's the case and something that is, I think, both inevitable and welcome, that we're seeing the rapid emergence of India and China, countries coming back into their own, so to speak, coming back to the relative status that they enjoyed for 18 centuries of the last 20, re-emerging as major economies. That growth continues in terms of investment and sales by California to Europe. In fact, the growth between 2006 and 2005 in exports from California to Europe was equivalent to all of the exports of California to India.

California sells 14 times as much per year to the European Union as it sells to India. California sold three times as much computer and electronic products to the European Union last year as it sold to China. This relationship is obviously very deep and a very important one, but it faces certain challenges and I wish to avail at this opportunity to speak about those and to say how much we wish, the European Union wishes, to cooperate and work more closely with the Senate in resolving these matters.

The first one is the protection of intellectual property rights. Intellectual property piracy discourages trade and investment and it is a problem that is growing rather than diminishing. There was an increase of 750% from 10 million seizures to 75 million seizures between 1998 and 2005 of faked goods at ports of entry, of goods that clearly represent the theft of intellectual property. This crime is becoming more and more evident and more and more a problem.

Since the summit between the United States and the European Union in 2006, there has been a determined effort by the European Union and the United States to work together to stamp out intellectual property theft. We are engaging in joint efforts abroad in both China and Russia not only to prod the authorities to do more, but to assist the authorities in helping their own citizens because a great part of the intellectual property theft that's taking place in China is not just of inventions or copyrights that belong to Europeans or Americans, but of inventions that belong to Chinese people; Chinese people who are having their intellectual property stolen because of insufficiently effective administration within China itself, particularly at a provincial level. There are also problems, as I have mentioned, of this nature in Russia.

On my last visit to the state I had the opportunity of meeting with the Motion Picture Association of America. They estimated that the losses to their industry came to approximately \$18.2 billion in 2005. And they estimate that if those losses didn't take place that there could be anything up to 141,000 additional jobs created in the industry, many of which jobs would be created here in California. So, the action plan that the European Union and the United States has put together to protect intellectual property is very important and one that is of direct benefit to this state and to the constituents of the members of this body.

We also wish to work together on harmonizing global patent rules to encourage more investment.

And I will now say a word, if I may, about China.

As we are on the Pacific, it is clearly important that we should have an understanding about how to deal with China. We believe that we have effectively the same interests in our dealings with China. Peter Mandelson, the EU commissioner, said not so long ago, that if you treat China as an enemy you shouldn't be surprised if it were to become an enemy. We don't believe that it is in our interest to treat China as an enemy but rather to treat it as a partner with whom we must have a robust and strong dialogue; with whom we must occasionally show some impatience. I think we must show some impatience with China in regard to a policy that they are pursuing in regard to their exchange rate which is actually creating significant distortions within the Chinese economy to the detriment of the Chinese people. The argument for a more realistic exchange rate is an argument that can be made in the interests of China just as much as it can be made in the interests of our people who must compete with China. And I think it's also important, however, to recognize the complexity of the current situation. If you take, for example, an iPod that's manufactured in China....well, apparently according to my information, an iPod retails here in the United States at \$299...

CROSSTALK

AMBASSADOR BRUTON: Okay. But according to my informant, anyway, who is the commissioner for these matters in Brussels, only \$4 of the \$300 or so that you pay for your iPod stays in China even though it's manufactured there, whereas \$160 goes to the United States' companies that design, transport and retail the iPod. So, clearly, in endeavoring to deal with the problem, we must make sure that we don't do anything that damages the companies that are earning the \$160 here in this country from this exercise. And it is a very complex and brittle relationship, the trade relationship that exists, particularly in regard to components. Clearly, what we need is a global system for the making and enforcement of rules; rules to protect intellectual property; rules to

protect us against unsafe products; rules to protect our environment which is an environment we share with the Chinese. I know that this state has been affected by pollution that has come all the way across the Pacific from China. The challenge that legislators face whether it be at a state level or a federal level in Europe or in the United States, is a challenge of finding a way of making global rules to protect our legitimate interests while ensuring that we continue to have a democratic input to the making of those rules.

Rules that are made for the state of California by this body are made in the open and in a transparent way by people who have been elected to do that job and who are accountable to the people. Rules that emerge, on the other hand, from diplomatic negotiations, whether it be in the World Patent Organization, or the World Health Organization, or the World Trade Organization, are made in secret by people who are negotiating with one another, who then present a *fait accompli* to the rest of us for approval or otherwise.

One of the challenges that we face is, I think, to find a way of combining globalization and democracy-globalization, which is a good thing; democracy, which is essential, but ensuring that the process towards globalization doesn't in any way jeopardize democracy. And I think my appearance here, representing as I do, 27 Member States of the European Union, representing the only multi-national body that actually is a democracy in the sense that the co-legislature in the European Union is a directly elected European Parliament beside the Council of Ministers, I'm representing, I hope, one way of dealing with this difficult task of reconciling multi-national global interdependence with multi-national democratic accountability.

There were one or two other points I should quickly mention in which we need to work together. One is the issue of sovereign wealth funds, funds owned by governments. We need to ensure that they act in a transparent way and that they do not acquire natural monopolies or

monopolies of any kind in the trade of any good or service in our economy. Their money is welcome. Their money has been very helpful in maintaining our financial system in the recent difficult few months. But we must ensure that we continue to manage that properly.

Another area where we must work together is in ensuring that we have a successful conclusion of the Doha trade round which is currently in negotiation. I think it's quite likely that in April we will actually see agreement on the modalities for the conclusion of a round. If that happens, it will be a major step forward and quite unexpected. Most people are not optimistic about this round but, in fact, I think that their pessimism will prove to be misplaced.

For European farmers this is not particularly good news because European farmers are agreeing, as part of the offer we have put on the table to eliminate export subsidies, to reduce by 75% all domestic support that is trade-distorting, and to cut our agricultural tariffs by 60%. We've made a substantial offer in agriculture and we're hoping for a substantial opening for our industrial exports, and we're also hoping (and this is a matter of direct relevance to California) that the World Trade Organization will create a system for effectively respecting what is known as geographical indicators. In other words, an indication that if a wine is labeled "Napa Valley" it actually comes from Napa Valley. We, in the European Union, insist on protecting that particular geographical indication. It's one of the first ones that we have recognized that no one can sell wine as being from Napa Valley that isn't. We would like to see that system generalized to protect Parma ham; that it should come from Parma in Italy, to protect various other indicators so that people are not misleading consumers about the origin of particular products. For our agricultural community who are giving up a lot for our trade round, getting geographical indicators recognized would be a very valuable compensation for them for what otherwise is not particularly good news.

Finally, I would say a word about climate change. We are very appreciative of the leadership that you have given on this matter. For our part, we in the European Union propose that by 2020 we will succeed in reducing our global greenhouse gas emissions in Europe to 20% below their 1990 level. I know that the proposals that have been made here would involve bringing emissions back down to their 1990 level, and that's a lot more ambitious than anything that's been attempted anywhere else in the United States. We, too, have made ambitious proposals to increase the fuel efficiency of vehicles. I think we wish to achieve 49 miles per gallon as the minimum acceptable efficiency level of vehicles in Europe, which is pretty efficient. And we intend and hope to work closely with you on these and other issues.

I conclude my remarks at this stage. I'm sorry if I've spoken unduly long. But I think that, as I said, I speak as somebody who represents a Union that greatly admires California; that regards California as an outstanding inspiration in reconciling the needs of humanity with the needs of economic growth.

And I thank you very much for affording me this opportunity to speak before you.

SENATOR ACKERMAN: Before we get to questions, could you repeat those initial stats you gave us about the combination of the EU and USA representing 10% of the population, 40%...

AMBASSADOR BRUTON: The EU and the U.S. together represent roughly 10% of the world's population (I think it could be up to 13% depending on how you count) and we account for roughly 40% of world trade, and close to 60% of world GDP. I have also seen the figure 55%. It's high anyway. We are less than the fifth of the population of the world and we're enjoying more than half of the world's income.

SENATOR ACKERMAN: Senator Margett.

SENATOR BOB MARGETT: Thank you, Senator. Welcome to California. Being an Irishman, and I'm one of the few Irishman in the state senate so, I double your welcome your Excellency.

I was interested in what you had to say about rules and regulations when it comes to manufacturing. I think it's easy to pass rules and regulations but, of course, the enforcement of those regulations, do you have any thoughts on that? Of course, if we have rules and regulations when it involves capital and the movement of hard goods, that's one thing, but I really had reference to generic drugs. That some of the drugs that are being manufactured both in Europe and China and elsewhere in the world are not of the pure sense of the word the same type of formula, for instance, that we require here in the United States, and there is a difference. I mean, I'm much older than you, but having said _____ take more medication than the average, but there is a difference, believe it or not, in the generic and what is being manufactured. Do you have a comment with regards to that? Then I have one more question on climate change when you're finished.

AMBASSADOR BRUTON: In the European Union the enforcement of regulations is done not by a federal enforcement body, but by the individual Member States. The European Union lays down the rules; countries are obliged to put in place detailed legislation and to enforce that legislation in line with the EU rules. Sometimes, Member States have to be taken to court because they're not adequately enforcing the EU rules. But as a result, they do, in fact, eventually do so.

As to generic drugs, I'm not, myself, in a position to comment on the relative quality of them. I'm sure it alters case by case. Some generic drugs are probably just as good as their brand's counterparts, but there may be exceptions.

The European health system in most countries--and health is something that's governed at the level of individual states there isn't a uniform EU health system--does cost less than the health system costs

here in terms of overall expenditure. I think in the United States 16% of GDP is spent on health, mostly by private individuals, but also by federal and state and taxpayers, whereas the highest proportion of GDP spent on health in Europe, I think, is 11% in Germany; and I think it is somewhere around 9% in France; and lower, again, in Britain and Ireland and a number of other countries. And I think one of the ways in which that is achieved, that lower overall cost is by higher use of generic drugs, is by, basically, monopoly purchase, where the government purchases the drugs, and being a monopoly purchaser it can drive down prices. And this does lead to complaints from pharmaceutical manufacturers, that Europe is not the best place to do business because the prices are driven down. And that also, probably, results in less innovation in research and development for the European market than for other markets, so that's a loss. On the other hand, there is the gain that the pharmaceuticals cost less and that the taxpayer and individual pays less in Europe, perhaps, for some treatments than people would expect to pay here. So it's....

SENATOR MARGETT: It's a balancing act

AMBASSADOR BRUTON: Exactly.

SENATOR MARGETT: One last question, Senator, if you don't mind. With regards to climate change, and I think that everybody will acknowledge there's a warming. You can't go to Japan or Iceland or Canada or anyplace in the world and not realize that there is a warming element that's taking place. There are some of the school that feel that it's a natural phenomenon that's not necessarily being caused by greenhouse gases, although that is a contributor. Are we going to ruin economies? Are we really going to incur an awful lot of costs and go into a lot of programs that may be unnecessary? How do you view the reaction? Is it going to be, kind of, a knee-jerk reaction with regards to this global warming? Or, could it be a natural phenomenon that's taking place?

AMBASSADOR BRUTON: Senator, I don't claim to be a scientist. My studies of chemistry ceased rather abruptly at the age of fifteen, so I (for good reason too). So I won't attempt to explain the dynamics that are identified by the International Panel on Climate Change as indicating that it is predominantly human activity that is leading to the increased instability and volatility of our weather. I just make the common sense, or I hope it's a common sense observation; it has been estimated that an average American emits, through all their activities, 20 tons a year of carbon into the air. An average European emits, I think, it's 13 tons of carbon into the air. And your average citizen in Bangladesh emits about .3 of a ton. I would find it very hard to believe, to turn the argument around, that putting 20 tons a year of material into the atmosphere doesn't make some difference. I think it's bound to be making a difference. What exactly the difference is one cannot say for sure, but I think one would want to reduce it to the best degree that you possibly can in the interest of prudence. To be putting that much material into the atmosphere is likely to be doing something and that something is unlikely to be pleasant.

SENATOR MARGETT: (off mike) _____ spoils food chains and that sort of thing.

AMBASSADOR BRUTON: Yes. And I believe it does change the climate and it is changing the climate. I would go along with the scientists who say that. I think that is the case. But even people who want to doubt that....I think if you just think of 20 tons per person going up into the atmosphere and ask them do they really think that's making no difference? I think the answer is likely to be that this is making some difference.

SENATOR ACKERMAN: Senator Kehoe.

SENATOR CHRISTINE KEHOE: Thank you. It's a pleasure to hear you speak. Thank you so much for visiting and for articulating so well the economic ties between California and the EU.

A number of us have had the opportunity to travel to European nations and look at issues like climate change, and I'm one of them. We really learned a lot in Amsterdam, in the Netherlands, a couple of years ago, and Ireland, and Italy, in different trips over the years. It seems to me, that many of the countries are giving, are bringing in a lot of innovative ideas to electrical energy generation and your transportation sector, as well. I'm delighted to hear you're going up to 40 miles a gallon. I wish we could catch up here—49. And I hope we will catch up here too.

SENATOR MARGETT: Our motorcycles do it, Chris.

SENATOR KEHOE: It would be good if there are a couple more passengers there, Bob. And I just hope we continue to work together. Here in California, the governor is very supportive of a low carbon fuel standard and also of carbon trading. And one of the things we're always looking at is what we do here in California, we would like to have match up, so to speak, with whatever is being done in the EU. So, if we have a trading market that we can trade across borders and have it work, not on a global scale, but at least on a semi-global scale. And the same with the low-carbon fuel standard. If we can get to a place where we can benchmark some of these issues and have a standard that is recognized around the world, I think we will be that much to the good as far as trying to reduce our carbon emissions and get some global agreement on how we're going to proceed going forward. So, I very much enjoyed the issues that you touched on. And I think we have a lot to work on together.

AMBASSADOR BRUTON: Senator, I want to say how much I agree with what you just said. We, in the European Union, have introduced a cap on trade system whereby companies that emit more

carbon into the atmosphere than their allocated amount in a given year have to buy permits from companies that emit less than their permitted amount. This financial mechanism is modeled on a U.S. innovation which was in respect of the sulfur dioxide pollution problem, where cap on trade was introduced here. And we have found, obviously, certain difficulties with the initial phase of this, as you do with anything new. Some have said that we gave away too many permits free to too many power generators and that we should have required them to pay for their permits. In other words, we should have had an auctioning system for the permits rather than giving them away. And in the second round of our cap and trade system we're moving towards an auctioning system. And we're introducing other measures so that the entire carbon-emitting section of our economy will be subject to tight controls. We would wish to see this generalized into a world or, at least, international cap and trade market.

Obviously, for a market like this to work there has to be a lot of trust. Trust that the figures that you're getting for actual emissions are accurate. Trust that the mitigating measures that you may be paying for to allow you to emit—mitigating measures that maybe being undertaken in the form of reforestation in some other country far away or in the installation of some energy-saving device in another country very far away, trust that these are actually being done and that they are actually achieving what they're supposed to be achieving. So, a global system to deal with this will, I think, require the building of an enormously greater infrastructure of mutual trust between countries, particularly mutual trust between us and China, us and India, which are the countries that really could do the most damage as they grow, or could, if they choose to, grow in a way that is not increasing carbon emissions unduly, could help us resolve our problems. So, it's an issue that requires a lot of work internationally. And I believe that discussions like this are very useful in building the necessary trust to get a system going globally that works.

SENATOR KEHOE: May I just make one comment?

SENATOR ACKERMAN: Please do.

SENATOR KEHOE: Thank you. I think the issue of trust between countries is an important one and certainly one we need to increase. But I also think there's technology we can bring to the discussion that helps with accurate accountability and verification trades. And if we develop benchmarks in a transparent way, that will enhance our ability to have trusting relationships with other nations.

As you were speaking about going to a parliamentary system to develop some of the trade issues, we need to, kind of, maybe, think along those lines as far as developing accurate ways to measure how we trade carbons and how we do it internationally, I guess.

AMBASSADOR BRUTON: I think these are matters on which we must work more closely together than we've been doing. And I think the whole issue of regulation and the verification of regulation is one in which academic leadership here in California has been quite remarkable. And I'm happy to be able to say that, today, I signed a memorandum of understanding with the University of California, Berkeley, on an agreement on working together on regulatory issues of this nature, where the vast expertise of the university system in California can interact with the expertise that we're developing in Europe.

SENATOR KEHOE: One of the university's alumnus is right over there chairing the committee. They're all over the place here.

AMBASSADOR BRUTON: Yes.

SENATOR KEHOE: Thank you.

SENATOR ACKERMAN: Senator Cox.

SENATOR DAVE COX: Thank you very much for being here today, Ambassador. You don't happen to have the numbers, the per ton numbers of emission for China and India, do you? You cited 20 tons...

AMBASSADOR BRUTON: I don't. I'm sorry to say, I don't.

SENATOR KEHOE: Oh, for the individuals?

SENATOR COX: For the individuals.

AMBASSADOR BRUTON: Per capita, I think, from memory, China is quite high, actually, but it's not anywhere near the U.S. levels. But it is fairly high. But I can get those for you.

SENATOR COX: And so today you are saying that China is not as high as the United States?

AMBASSADOR BRUTON: No, per capita. The Chinese economy, as a whole, with its...I think there's something like a billion people in China; there's something like 300 million here in the United States. Chinese emissions of greenhouse gases have just topped U.S. emissions as a whole, but their population is somewhere in the region of three to three-and-a-half times...

SENATOR COX: It has to do with that numerator and whatever?

AMBASSADOR BRUTON: Yes. So, if the U.S. is emitting 20 tons per capita, I imagine that the Chinese emission level would be somewhere in the levels of 7 to 8 tons per capita, doing that math, which is about as far as I can go in mathematics.

SENATOR COX: I apologize for being late today and have not had an opportunity to....it's always good to have the facts.

AMBASSADOR BRUTON: Seven tons per capita in China; three tons in India per capita.

SENATOR COX: I've not had the opportunity to read this material. I look forward to doing that. Thank you for your presentation.

It does seem to me, however, that when you begin to talk about making significant reductions in the U.S. emissions per capita, which you say today is 20, and the European is 13, and then you cite Bangladesh as being .3, it seems to me that the only way that that occurs is if, in fact, what happens is the U.S. economy is, in fact, taken down, and I'm very much concerned about that. It probably isn't any

surprise to you that there are some skeptics about whether or not the global warming is caused by man as opposed to something such as the solar flares and that sort of thing.

I just finished reading a, kind of, interesting book called *Every 1500 Years Global Warming*, and it seems to me that there are a significant number of (in quotation marks) “real scientists and climatologists” that are now saying that it’s probably not man made; it really does have to do with solar flares and that sort of thing.

So, I just, while I thank you for your presentation today, I just wouldn’t want you to think there was not at least one person up here who is skeptical about whether or not it was man made. But I do thank you for your presentation.

SENATOR ACKERMAN: Senator Lowenthal.

SENATOR ALAN LOWENTHAL: Well, I just don’t want you to leave...

SENATOR COX: And by the way, Senator Lowenthal and I traveled several months ago together and we had this discussion from one side of the country to another. And we were in Malaysia; we were in Singapore, Sarawak and Kuala Lumpur. So, we had this discussion. I know what he’s going to say, but you’ll want to hear it, sir.

SENATOR ACKERMAN: Senator Lowenthal.

SENATOR LOWENTHAL: I just concur with some of the comments that were made by Senator Kehoe and others. I think that the preponderance of evidence, I think California has acted in a very responsible way, is that a significant contributor is human activity. But I didn’t want to get into that discussion. I think that’s best left to scientists.

I did want to ask you one thing about some of the initial concerns. As California moves forward with our AB 32 implementation, which is our implementation of the reduction of greenhouse gases to by 2020, we’re very concerned that we have accurate assessment and baseline

data. Can you tell us a little bit about some of the issues that happened in the EU about the accurate assessment? We think that without accurate assessment it will be very difficult to, obviously, measure effectiveness. And that there were some serious issues that have taken place, or concerns, about that. Not any way implying that there's not a need for reduction of greenhouse gases, but just the very question of how you assess the original data.

AMBASSADOR BRUTON: First of all, on Senator Cox's point: I think if the United States could reach the same level of per capita emissions as California has reached, there wouldn't be a problem. Emissions per capita in California are around 10 tons per capita; whereas emissions in North Dakota are 80 tons per capita.

CROSSTALK

AMBASSADOR BRUTON: West Virginia has something similar. I suppose it's principally to do with the coal industry in those states. But if one could sequester the carbon that is being emitted, and our cap on trade system would create a direct financial incentive to sequester that carbon, put it underground, put it back into the ground, so to speak, then, in theory at least, North Dakota, Wyoming, West Virginia, Louisiana, Indiana, those states that are very high levels of emissions per capita that are pushing up the U.S. average, would be able to bring their emissions down to the California level.

SENATOR LOWENTHAL: So, you disagree with Senator Cox's idea that this will destroy the economy?

AMBASSADOR BRUTON: Well, I think that California is a very good example of an economy that has not been destroyed, that, in fact, has prospered while it has succeeded in reducing its emissions. And New York has been even more successful than California; Massachusetts more successful, again, than California. And if one can look at what works in this area in the United States (one doesn't have to go abroad to

find models that work), I think California is a model that works, and which could, of course, do more.

On Senator Lowenthal's point: I'm not sufficiently expert on the subject to say exactly how the baseline data was obtained in Europe, but it clearly is essential to have accurate baseline data that is trusted by everybody, including being trusted by the competitors of the people who are supplying the baseline data, because the cap on trade system that wasn't based on accurate baseline data would be a fraud. I have heard many criticisms of the U.S./EU cap and trade system, but one criticism that I haven't heard is that the baseline data was inadequate. So, clearly, it would be useful for the committee if I could obtain for you some information on how the baseline data was established in the European system. And if I may, Senator, I will send you that information for Senator Lowenthal, because I think that this issue of baseline data is critical.

SENATOR ACKERMAN: I have a couple of questions before we get off of climate change. I'd like to make my little anecdote too. I was reading a journal number, I think sometime last year, on this subject and they pointed out Mars, which has a lot of ice on it, the ice is starting to melt on Mars. And they also noted that there weren't a lot of SUVs over there, or power plants or coal burning, anythings. So I like to use that because it backs up what I believe.

So, anyway, more specifically, you mentioned about agricultural subsidies in the EU; could you give us a little more information on that? And do you see that as a problem on the U.S. side with any agricultural subsidies we may have?

AMBASSADOR BRUTON: The European Union would probably give agricultural subsidies that in global terms are slightly greater in total financial terms than the U.S. subsidies. But we have 13 million farmers, whereas there are about two million farmers in the United States, so per farmer, our level of subsidization is considerably less than

here. The trend has been for European subsidies that were trade-distorting; in other words, that affected prices or increased production over what would be the production that would take place in market neutral conditions to diminish, whereas, those types of subsidy on the success of farm business in recent times, at least, since the freedom to farm bill expired, have tended to trend upwards. In the negotiations that are currently taking place in Geneva, the other countries are looking to the United States to commit to a lower level of farm support than is currently permitted.

I can't remember the figures exactly but my understanding is that in practice in current market conditions, the United States is actually giving a lot less farm support than it is permitted to do under the existing rules. So there is the possibility of the United States ceiling on farm assistance being substantially reduced without the actual assistance being reduced at all. And the issue that is currently under negotiation is how much the ceiling would be reduced rather than how much the actual assistance would be reduced in current terms. That's where it's at, at the moment. I think the U.S. administration is fighting for a rather more generous amount of headroom than others wish the United States to have—Brazil, in particular, is pushing for a reduction. We are also pushing for a reduction.

SENATOR ACKERMAN: An issue that Senator Lowenthal knows more about than I do is on port security and whether or not that is going to be a problem with additional trade between the U.S. and the EU?

AMBASSADOR BRUTON: One of the reasons why we've had such an explosion in trade, and such growth of trade, and such reduction in real prices of goods imported from other countries and exported from this country—American exports have been booming in the last number of years—one of the reasons for this is the dramatic increase in the efficiency of ports. Ports in this country and ports in other countries are

much, much more efficient than they were ten years ago. Not just as a result of containerization, but all sorts of other developments.

We are very concerned in Europe at a proposal which was contained in the 9/11 bill to introduce to require that 100% of containers destined for the United States from other countries be screened not just for radioactive material, but screened to actually see an outline of what's in the container—the shape of the material inside the container. The technology for doing this is not fully mature. The delays that will be involved at ports, as containers backup waiting to be screened, will be enormous. The parking space doesn't exist in European ports to do this. Large city blocks would have to be knocked down to make room for the parking space to keep all these containers and their drivers sitting in the cab waiting to go through. We don't believe that this is the best way of detecting, eliminating or reducing risk. We think that the current system whereby on the basis of a risk basis analysis, looking at where the containers come from, looking for that material; that is you do this sort of screening selectively, rather than generally, is better.

We're not aware that the United States actually has the means of assimilating or examining any of this data that might be generated. In fact, we're pretty confident that you can't. You're not able; not in a position to examine the data. And we're struck by the fact that the United States is asking other countries to examine the containers destined for the United States but isn't volunteering to examine containers originating in the United States and going to other countries, including other countries like the countries of Europe, which the United States itself says are potential victims of terrorist attacks. We believe that there should be reciprocity in the area of security, reciprocity in the sharing of information, reciprocity in the security measures required in both directions, and we do have concerns about this particular proposal.

Now, it is due to come into effect four years from now. There are certain criteria on which there might be _____ (that's a might, not a

will) and business abhors uncertainty. And the uncertainty about whether this requirement will come into effect is bad for business and bad for trade. And we are hoping that we can reach an agreement on another system of enhancing existing agreements rather than proceed with this proposal which we consider to be ill-considered.

SENATOR ACKERMAN: Any questions or comments from the committee?

SENATOR MARGETT: Just one, Senator, if you don't mind. May we go back to agricultural subsidies and exports? Not all farmers in the United States and the products that they raise are subsidized. It's a free whatever you can get for your product, and usually it's cotton and wheat and, I believe, tobacco are probably the primary commodities that still have federal subsidies. I don't think we subsidize anything in California. So, we're not really a huge market subsidizing our farmers here in this country.

SENATOR KEHOE: Water.

SENATOR MARGETT: Water, yeah.

AMBASSADOR BRUTON: I'm aware of that. In fact, there are certain products that are subsidized quite heavily and certain products that are not subsidized at all. I know that in certain parts of the States water is a factor. In other parts of the States water is available plentifully and there is no distortion of the market for the use of that water for irrigation. It varies a lot. We're not, through the World Trade Organization, seeking to tell the United States exactly what products the United States should or should not subsidize; we're simply looking for an overall ceiling on the overall subsidy that might be granted, a ceiling within which the United States would be free to alter the assistance and the form of assistance that it gives as the United States wishes to do.

SENATOR MARGETT: In your honest judgment, do you feel that no subsidies whatsoever on any commodity in the United States or the

UK would be the way to be able enter into a real free market, to be able to make sure that we're getting the best buy for the dollar or pound, as an economist?

AMBASSADOR BRUTON: But I'm also a farmer, believe it or not..

SENATOR MARGETT: Oh, you're a farmer.

AMBASSADOR BRUTON: But not a very good one. And certainly my farm is being neglected at the moment as I sit here. But personally, I have a strong sympathy for the idea that there should be no difference in the assistance that is given to agriculture over other formidable business. But I think that the view that's held in Europe by the majority of the population _____ is that the preservation of the countryside and the preservation of economic activity in the form of farming in the countryside is a social good for which people who live in the cities are prepared to pay additional taxes. That is the majority view. People don't look on farming in that sense as purely and simply a business, and they are prepared to subsidize if not the farming activity, at least....if not the product produced, at least the farmer producing it. What has been happening is that increasingly the EU's form of assistance to agriculture has moved away from subsidizing products to subsidizing farmers on the basis that the farmer will get the subsidy on the basis of his or her previous level of production, whether they are producing that amount now or not, and on condition that they are maintaining the countryside; that they're maintaining hedges; that they're maintaining the amenities of the countryside; that they're not polluting the water courses; they're not causing any environmental difficulty. That shift towards, I think you'd call it conservation—type support, is a strong trend in Europe at the present time. And one of the merits of that approach is that it isn't trade-distorting; it isn't generating additional production that has to be dumped on the market at subsidized prices in the same way as previous forms of assistance were.

SENATOR ACKERMAN: Ambassador, do you have any specific recommendations or ideas for California or any other state that would make us more attractive for European business?

AMBASSADOR BRUTON: I'd be very reluctant to advise the state that has been probably the most successful state in developing high tech business in the entire world on what it can do better. Many European countries, including the one from which I originated myself, have been the recipients of investment originating in California.

I think that one of the risks that any successful state or individual or company runs is that of complacency; is that of thinking that what worked for you five years ago will always work for you, or will work for you five years from now. So, I would suggest without knowing exactly what you should question, that you should continue to question the formula that you are using.

My own sense from my own experience of my own country (and I was involved in Ministry of Industry and Ministry of Finance and ultimately as prime minister) in creating the conditions, in some degree unwittingly, which led to Ireland's economic success, is that investment in education is vital. Investment in education of all the people, not just those with the top half of the ability range, but the entire population, that investment in their education is very important. And I think that if one were to look at countries that have been particularly effective in that area, I would look at the Scandinavian countries in Europe—Denmark, Sweden and countries like that, that have been very good in the way that they have invested in education for the entire ability range. And I think that that's something that needs to be done, and based in the public school system. It is very important as a means of assuring that everybody gets a chance to contribute to the economy.

I would also think that California's neighbors need to invest more in education. I visited your neighbor to the south on a number of occasions. It's a country I enormously admire—Mexico. But I feel that

Mexico hasn't invested sufficiently in the education of their population. One of the reasons why so many Mexicans have to seek a living other than in Mexico is due to an underinvestment in education in the past. And investment in education is something that takes 20 or 30 years to yield its full return, which of course is not necessarily attractive to legislators who have a much shorter timeframe or electoral cycle within which they must seek returns on the decisions they make, so education may lose out to other forms of potential investment. But I think education is the most important contribution. But again, one needs to question how the money is being spent in education.

Ireland's education system has been very successful but we haven't got the smallest classes in Europe. In fact, we have almost the biggest classes. We pay our teachers quite well. We have a single examination which everybody must take at the end of their school career which is the same exam for everybody. So, it doesn't matter what school you went to, your chance of going to university is dictated by how you do in the exam. So, I think there are things like that that can be potentially interesting to California. But I didn't expect to answer the question. I didn't expect to be asked that question; that's why I've given such a long-winded and rambling answer.

SENATOR ACKERMAN: Going the other way, has the EU considered establishing an office, say, in California to facilitate California businesses in setting up an EU?

AMBASSADOR BRUTON: Normally the business of encouraging investment from California in the European Union is undertaken by the Member States. Each of the Member States, I think all of them, probably have offices here in California seeking to attract investment from California to their individual Member States. However, there was a time in the 1980s, when the European Commission, which isn't concerned within their investment but with the rules that apply to all 27 Member States—when we, the European Commission, unilaterally, we had an

office in San Francisco for a brief period. At the time that the Soviet Union fell and there was a major change in the world, we needed the resources to open new offices in a number of countries that were appearing on the map of the world for the first time for 70 or 80 years and the office in San Francisco was closed in order to release the resources. We're now moving to a point where a new External Action Service for the European Union is to be established. If the treaty that has recently been ratified by most of the Member States is ratified by all of them, that new External Action Service may create a context in which we could look at the possibility of opening an office on the West Coast of the United States. I can give no assurances on that point. There is no clarity about how this External Action Service would work, if and when it comes into being. But I know that the speaker of the House of Representatives in Washington did bring this matter up with the president of the European Commission when he visited here not so long ago and he gave her an undertaking that he would look into this matter. And I will, for my part, do likewise.

I should say that it is something that I would like to see in particular at this time because the original office was established at the initiative of, then—freshman member of the House of Representatives, Tom Lantos. And I have personally come to know and like Tom Lantos a lot during my time here in Washington. And I think it would be a very fine way of our remembering his contribution to public life, if we could rekindle a decision that he initially initiated. However, whether that could happen or not, I don't know. But thank you very much for raising it, Mr. Chairman. It's an issue that's been on our minds. Obviously, there would be other claims from other parts of the United States as well and our budget is limited.

The European Union, by the way, is not allowed to spend more than one cent in every dollar that is generated in the European Union.

We only spend one cent at federal level, so we are limited with what we can do with that one cent.

SENATOR LOWENTHAL: I just have one last question that was stimulated by your discussion on education and the role of education in terms of economic development. And I'm struck with, here in California one of our greatest challenges, but also opportunities in terms of education has been the tremendous numbers of immigrants from throughout the world that have come and wished to participate in our economy and go to school and which is a great dynamic force in the country but also one of, sometimes, great challenge for us as a nation. Do you suffer—and maybe the word “suffer” is not the word—do you have some of the same challenges in the European Union about issues around immigration that we have here in just the numbers and the changes that are occurring?

AMBASSADOR BRUTON: Are you talking about people coming in to be educated?

SENATOR LOWENTHAL: That's right. People just coming into work in the European Union to impact school systems, which become, in many ways, the dynamic force of the new entrepreneurs, but in the other way, tremendous challenges for us also?

AMBASSADOR BRUTON: I don't have the statistics at hand, but I think the proportion of immigrants in the countries of the European Union is not as high as the overall proportion in the United States. I think the highest actually is Ireland; interestingly enough, a country from which many people immigrated and probably the ancestors of some members in the committee would come from that country. It's interesting to note that now there are more immigrants in Ireland than there are in any of the other 27 countries. Now, admittedly, many of them are from other EU countries, so not really immigrants in that sense. And in Ireland's case so far, there hasn't been any great problem. There is a difficulty in some of the schools, all right, that some of the

children don't actually speak English very well. And they're not only being taught English, and taught true English, but they're being taught Gaelic, as well, a language which most of the Irish people don't speak for which is compulsory in our schools for historical and nationalistic reasons, and that is causing some difficulty. But I wouldn't overstate it.

There are other problems in other parts of Europe where some communities regard themselves as culturally different and try to preserve the culture of their native language which may be a village-type culture in an urban setting in Europe, preserving the same relative roles of the father and the household vis-à-vis the women and vis-à-vis the children and not integrating to the same degree, and that is evident in France. On the other hand, if you consider that 10% of France's population is Muslim (and there really has been very little trouble when you compare that with what France was 30 or 40 years ago)—to have been able to absorb that many people making up 10% of the population, in many ways quite a bit a different culture and religious heritage, and have as little trouble as actually has happened is much an achievement as anything else. So while we do have problems, and there have been examples of not so much from that community as from other immigrant communities in other European countries, where there has been some terrorism. A terrorist plot was foiled with the aid of U.S. intelligence in Denmark, not so long ago. There was a successful attempt, unfortunately, in Spain. Some attempts have been foiled in Germany.

The reasons for this minority, tiny minority of a minority, to engage in terrorism is hard to discern. I had the opportunity of speaking to someone who was familiar with the group of people who were found to be wanting to commit a terrorist attack in Denmark and it was interesting that these people came, actually, from mixed marriages. There are a number of them who came....one of their parents was Danish and the other parent was an immigrant. And I suppose there was some sort of identity issue in the young person's mind, and if you like, there was a

search for an identity and that maybe they turned to terrorism as a way of trying to find some totally unacceptable and distorted way of expressing themselves, so to speak. So these people were not typical, if you like, of the general community of immigrants. They were an exception within the minority for identifiable cultures and psychological reasons.

So, I think one of the challenges we face, in addition to enhancing our cooperation on the exchange of information, is to integrate people into the community and to make them feel part of the community. That requires their leadership to give a lead in terms of integration. It requires the community itself, the majority community, to go out of its way.

I think sport, participation in sport, is one of the most effective ways in which an immigrant community can integrate. I also think work, having a job where you have to mix with people of other backgrounds is vital. And to the extent that some of the welfare and employment systems of Europe are a disincentive to work and a disincentive to work at relatively low wages, I think those failures in our labor market contribute indirectly to creating a lack of integration, which in turn may contribute to a possible turn of a very small minority towards terrorist activity.

So, what we're trying to do to modernize Europe's economy, to make our labor market more effective, to introduce more freedom, more entrepreneurial spirit into our economy, that is also going to help us in dealing with the problems of integrating immigrants and dealing with possible terrorist temptations, as well.

SENATOR ACKERMAN: I want to thank you for your presentation. I was just thinking about our day in Sacramento. Today, I think it was a very important day. This morning, we heard from President Calderon from Mexico and he talked about immigration and the economy. And this afternoon, we hear from the ambassador of the EU. I think if you take away all of our ancestors from Mexico and the EU

there wouldn't be anybody living in California, save a few, so we appreciate that. But that also pointed out the necessity of having very good relationships with both Mexico, as he did, and with the EU from an economic standpoint. And our two biggest trading partners, obviously, are Europe and Mexico, and it's very important that we continue that. So, we appreciate you coming.

And we have a small token, the courtesy of Senator Margett, who is always very thoughtful. We have some California cufflinks you can take back with you when you go home. (applause....end)