

euinsight

The EU & California

A Key Piece of a Thriving Economic Partnership

The EU's robust economic relationship with the state of California is a reflection of the larger transatlantic relationship. While the world watches the rise of China and Asia, the deep, interconnected, and historical relationship between the EU and the United States continues to be—as characterized by transatlantic leaders—the indispensable partnership.

A Continent-Sized Relationship

Among the 50 U.S. states, California ranks first in population, gross domestic product, and exports, and is the nation's high tech leader. California has one of the ten largest economies in the world—on a par with many national economies—boasting a state gross domestic product of \$1.7 trillion in 2006.

The European Union accounts for more than \$63 billion annually in export and investment dollars earned in California, supporting more than one million jobs within the state. California ranked second among U.S. states after Texas as a destination for EU foreign direct investment in 2004—the \$45 billion of FDI translated into nearly 340,000 jobs for Californians directly employed by

EU affiliates, over one-fourth in the manufacturing sector.

International commerce made up approximately one-quarter of the state economy in 2006. California exports represented 12 percent of the U.S. total in 2006, and about one-fifth of those were destined for Europe. While exports to NAFTA partners Mexico and Canada, and Asian partners China, Japan, and South Korea, have experienced growth during the past four years, the EU remains the foremost destination for goods and services from “The Golden State.”

Shared Interests: Protecting IPR

Intellectual property protection is at the heart of EU and U.S. competitiveness in the global economy. High-value goods produced on both sides of the Atlantic, including an array of products from California, contain protected intellectual property developed at great expense to European and American business.

On a recent trip to California, EU Commission Ambassador John Bruton met with the Motion Picture Association of America, which estimates that in 2005 the worldwide movie industry lost \$18.2

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“The EU is California's largest export market, twice as big as China and Japan combined. Investment alone from the EU supports nearly 340,000 jobs in California.”

Ambassador John Bruton
European Commission Delegation
to the United States

billion to piracy—including the local film industry in China (a country more often thought of as a destination for stolen films), which was deprived of \$2.7 billion.

Theft of intellectual property adversely affects a range of economic sectors, including the high tech industry. IP piracy discourages trade and investment, distorts competition, and can even lead to a loss of confidence in government. It can have major repercussions on public health and safety with the rise of counterfeit medicines, airplane parts, electrical appliances, and toys.

As part of ongoing efforts to address counterfeiting and piracy, the EU and the U.S. have launched an ambitious new initiative to cooperate on enforcement of intellectual property rights around the world. Key components of the effort, announced at the EU-U.S. Summit in 2006, include closer customs cooperation, joint European-American enforcement efforts abroad, particularly in China and Russia, and much greater collaboration with the private sector.

The Doha Round & Agriculture

An agricultural powerhouse and home to the Speaker of the U.S. House of Representatives, California has an important voice in the development of the U.S. Farm Bill and, in turn, the ongoing Doha Round of trade negotiations. The EU, U.S., and emerging economy leaders such as Brazil have been in intense negotiations over agricultural subsidies, market access in services, and other issues in the attempt to reach an agreement.

EU Recognizes Napa Wine Region

The Napa Valley in California recently became the first American region to be recognized with a geographical indication by the European Union, meaning that only wines from the Napa Valley will be able to bear the name “Napa Valley” on the label when sold in Europe. Napa Valley vintners asked for recognition by the EU to combat misuse of the Napa Valley name in markets around the world, including some in Europe.

The EU has registered nearly 5000 geographical indications, the vast majority of which are for wine and spirits. Protected designation products represent a considerable part of the European agri-food industry and exports and can create a special niche for less-developed agricultural economies. Geographical indications are important financially—out of €5.4 billion of EU wine and spirit exports, €3.5 billion worth are registered wine and spirits.

Let the Best Wine Win. The EU adheres to the policy of “let the best wine win,” and works to ensure that marketplace competition for wine and other products takes place fairly, including respect for geographical indications, which are important for consumer information and fairness in advertising. Geographical indications denote a certain and understood high quality, whether the product is a strain of Indian rice, a type of French cheese, or a wine from the Napa Valley of California.

Leading the Fight Against Climate Change

The EU respects California's role as a public policy leader and innovator in the U.S., particularly on matters of the environment. Throughout its history, California has always been in the vanguard of states adopting measures to protect citizens from environmental dangers, at times preceding and inspiring action at the Federal level, as with the state's move to require catalytic converters in automobiles in the 1970s.

In recent years, California has once again placed itself out front on one of the most pressing environmental issues of the day. Over the last several years, the state has taken a number of forward-looking steps that promise to provide a great boost to the fight against global climate change.

Under a 2002 law, California will require automakers to reduce emissions of carbon dioxide and other greenhouse gases from automobiles by 30 percent by the year 2016. The initiative, which requires a waiver from the U.S. Environmental Protection Agency before it can be enforced, has spawned similar efforts in a number of other states.

In early 2007, California mandated a low-carbon fuel standard that requires providers to reduce the carbon intensity

of transportation fuels sold in the state, thus boosting the use of alternative fuel mixtures. The California Executive Order preceded a similar European Commission fuel quality proposal by only a few days.

Across the broader economy, the state's Global Warming Solutions Act of 2006 mandates a statewide reduction in greenhouse gas emissions to 1990 levels by 2020. California has joined with other Western states and one Canadian province in the Western Regional Climate Action Initiative, setting the stage for a regional cap and trade program similar to the EU's own emissions trading system (ETS), instituted in 2005 (and originally inspired by a United States model introduced in the 1990s to curb acid rain).

For its part, the EU is moving forward aggressively in its own efforts to fight climate change, setting a goal to reduce greenhouse gas emissions by 20 percent below 1990 levels by 2020, and offering to reduce by 30 percent in the context of an international agreement including all industrialized nations. EU emissions for all 27 Member States reached 11 percent below the 1990 level in 2005; for the 15 countries in the EU when the Kyoto Protocol was signed, emissions were down 1.9 percent.

Aviation emissions will be included in the EU's ETS by 2011 and average new car emissions must reach 120 grams/kilometer by 2012 through an integrated approach. The EU has also set broad targets to realize 20 percent savings through greater energy efficiency and to boost the level of renewables in Europe's energy mix to 20 percent by the year 2020.

The Power of Example & Influence

Governor Arnold Schwarzenegger has noted that "when you look at the globe, California maybe is a little spot. But the fact is, the power of influence [the state has] on the rest of the world is [the] equivalent of a whole continent." Of course, Europe is a continent and, like California, its own climate change-fighting efforts cannot be enough by themselves. But through influence and leadership, Europe, California, and other like-minded partners around the globe can move forward the global response to climate change, which will only grow in importance as the "post-Kyoto" era approaches.

Ambassador John Bruton in California

In June 2007, European Commission Delegation Ambassador to the United States John Bruton traveled to California, where he addressed a joint session of the State Legislature and met with the Governor, business leaders, and other Californians. Ambassador Bruton praised the state's leadership on climate change in an op-ed published in the Sacramento Bee.

"Governor Arnold Schwarzenegger describes the fight against climate change as our 'race to the moon,' and it captures well the enormous challenge we now face....

"The European Union [is] combining measures such as cap-and-trade on greenhouse-gas emissions with research and development on energy efficiency and renewable energy sources.... For the future, we have set a new target of reducing emissions by at least 20 percent by 2020 compared with 1990 levels, and we are prepared to increase that to a reduction of 30 percent....

"Many similar policies and practices have been adopted in California, and we are important allies in the fight against climate change.... New data and the actions of California and like-minded states have led to a sea change in policy thinking, and the Federal Government is clearly concerned. We must now work together to get a credible global treaty, and have all industrial and industrializing countries commit themselves to dramatically reducing their emissions....

"Europe and the United States have so far been responsible for most greenhouse gases emitted into our atmosphere, and the world quite rightly looks to us for a lead....

"Either we make this 'race to the moon' or our own planet will one day actually resemble it."



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