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"The Transatlantic Trade & Investment Partnership:
Achieving the Potential"

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Thank you Chairman Baucus, Ranking Member Hatch, and distinguished members of the Senate Committee on Finance. My name is Mike Ducker and I am the Executive Vice President and Chief Operating Officer for FedEx Express. Thank you for the privilege of testifying today to share FedEx's strong support for negotiation of the Transatlantic Trade & Investment Partnership (T-TIP) with the European Union.

FedEx is proud to be a founding member and Corporate Co-Chair of the Business Coalition for Transatlantic Trade (BCTT), an organization established to promote growth, jobs, and competitiveness on both sides of the Atlantic through an ambitious, comprehensive and high-standard trade and investment agreement between the United States and the European Union. The BCTT includes hundreds of companies and associations which recognize T-TIP's tremendous economic potential. While I'm testifying today solely on behalf of my own company, the themes reflected in my remarks comport with the positions endorsed by the Coalition.

The FedEx Perspective

It should hardly be surprising that FedEx is an enthusiastic supporter of the T-TIP. Trade is at the heart of our business, and expanding opportunities for trade enables FedEx to create more jobs for U.S. workers, more export opportunities for our customers, and increased value for our shareholders. FedEx provides individuals and businesses worldwide with a broad portfolio of transportation, e-commerce and business services. Our network connects 95% of global GDP within 72 hours. FedEx has more than 300,000 team members who serve our customers and run our global networks. FedEx Express is the world's largest express transportation company, providing fast and reliable delivery to every U.S. address and to more than 220 countries and territories, including all Member States of the European Union. We operate nonstop widebody all-cargo flights between our U.S. hubs and European gateway airports at Paris, Cologne, London, Frankfurt, and Milan, with connecting flights using dedicated aircraft between our European gateways and 39 additional European airports. FedEx works to provide its customers access to new markets, new consumers, and new opportunities around the world.

Our worldwide express network is a critical element of the global value chain infrastructure for thousands of U.S. and EU companies, from many small- and medium-sized enterprises (SMEs) to the largest Fortune 100 companies, linking our customers with their suppliers, manufacturers, distributors, retailers, and consumers.

FedEx's U.S. operations, and our more than 230,000 American team members, support both our domestic services and our global express delivery network. Expansion of global trade strengthens FedEx and enables continued growth of our U.S. operations and workforce. As we grow around the world, we create jobs here in the United States. Without global trade, FedEx would be a shadow of our current operations, and our domestic work force would be dramatically smaller. Moreover, as our global network expands, we purchase new planes such as our new fleet of Boeing 777 freighters, new trucks, new equipment, new supplies and new services. We are constantly innovating to provide our customers the world's most advanced global air cargo, delivery and logistics network. Our growth abroad increases our demand for goods and services from our suppliers and vendors here in the United States, many of which are SMEs, helping them grow their businesses and work forces.

FedEx champions trade and foreign investment liberalization to help our customers reach new markets so they can grow their business and to increase demand for our services. Therefore, we strongly support trade negotiations and trade promotion agreements that create new commercial opportunities for our customers and in turn for ourselves. At FedEx we have seen the results from the trade promotion agreements currently in force, and we forecast similar positive impacts from the T-TIP negotiations. After implementation, two-way trade flows increase between the United States and its trade agreement partners, demand for our services to and from those countries increase, as do our package volumes, and we expand our operations in the United States and in the partner country to accommodate that growth – it really is as simple as that.

T-TIP Presents an Opportunity We Can't Afford to Miss

Because the U.S. and EU together account for almost half of global economic output, and the value of their trade already exceeds $1 trillion per year, the T-TIP is a trade initiative of unique and unprecedented magnitude. According to a report issued in September 2013 by the Bertelsmann Foundation in conjunction with the Atlantic Council and the U.K. Government, a comprehensive and ambitious T-TIP would lead to the creation of new jobs in every one of the 50 states, 740,000 new U.S. jobs in total, a figure equal to the entire working population of the State of New Hampshire. And as President Obama noted in June 2013 in announcing the launch of the T-TIP negotiations, this initiative will enable the U.S. and EU to "forge an economic alliance as strong as our diplomatic and security alliances, which, of course, have been the most powerful in history." The decision to pursue trade and investment liberalization with Europe is an obvious choice.

Moreover, the T-TIP has the potential, as a practical matter, to eventually set the standards to govern an even larger proportion of global trade, since other countries will likely see the benefit of conforming to its standards in order to gain access to this enormous combined market. Where the U.S. and Europe can agree on common approaches and high standard disciplines particularly with regard to such emerging issues affecting global trade as state-owned enterprises, cross-border data flows, and competition policy, T-TIP holds the promise of setting a high bar for international trade rules other countries will want to meet. High-standard transatlantic trade disciplines and standards which apply to close to half of the world's economy will have a powerful persuasive impact on both U.S. and EU trading partners by challenging those countries, some of which have adopted mercantilist trade and regulatory policies, to pursue trade agreements modeled after T-TIP, which are ambitious and comprehensive. Thus, our rules-based trading system will be strengthened, and all economies will benefit.

The T-TIP is distinct from many other recent trade agreements in that it will be between two highly advanced economies, both enjoying comparable standards of living, following broadly similar economic systems, and embracing democratic values. As a consequence, these negotiations are building from a position of considerable commonality on broad economic and political views. Therefore, it is less likely that it will be as difficult to reach consensus on many of the issues which have proven contentious in recent trade negotiations between developed and developing economies, such as environmental standards, labor standards, investment, services market access, and investor-state dispute settlement. Nonetheless, there is a host of other issues expected to prove sensitive in the T-TIP negotiations, including public procurement, state support for audio-visual and cultural industries, food and agriculture regulation and policy, and data privacy. Also, the T-TIP is expected to be far more ambitious than any earlier trade agreements in seeking to achieve greater compatibility of each side's regulatory regimes, such that producers of goods and services in both the U.S. and Europe can sell into each other's markets more efficiently and cost-effectively.

The T-Tip Pillars: Tariffs, Services, Investment, and Regulatory Compatibility

There are four principal pillars to the T-TIP: tariffs, services, investment, and regulatory compatibility.

Tariffs: Reducing tariffs, the traditional mainstay of trade negotiations, should be less problematic in the T-TIP context than in many other trade negotiations, because tariff levels in both the U.S. and EU are already relatively low. Nonetheless, given the massive volume of trade already occurring between the two partners, which will surely grow once the T-TIP enters into force, the economic consequence of eliminating even single-digit tariff rates will be enormous. It is estimated that U.S. businesses currently pay $6.4 billion each year in tariffs on goods exported to the EU. The simple stroke of a pen on the T-TIP agreement will eliminate this burden, immediately rendering U.S. exports that much more competitive in the European market. Moreover, approximately 40 percent of U.S. – EU trade is intra-company, which means that in many cases, companies are paying duties on both sides of the Atlantic for goods they're shipping to themselves.

Services: The U.S. and EU economies are increasingly dependent on services and major advancements in express delivery, computer networks, and telecommunications have driven this shift. The services sector generates 75% of GDP and employs 75% of the working population in both the U.S. and the EU. One of the great success stories of the U.S. economy is the global leadership American businesses in the services sector have achieved, including my own company, FedEx, which has become the world's largest express delivery carrier, but also many familiar brands in computer services, banking, securities, insurance, health care, education, management consulting, and other services industries. The services industry is a facilitator of trade, representing a growing share of value added in the manufacturing and agriculture sectors and enabling companies of all sizes, from SMEs to the largest corporations, the ability to transition from local establishments to international businesses that are able to participate in today's global value chains. During 2012, the U.S. exported $193 billion in services to the EU, representing 30% of total U.S. services exports, while the EU exported $149 billion in services to the U.S., accounting for 25% of its total services exports. Despite these impressive figures, trade in services represents only 36% of total trade between the U.S. and EU, trailing significantly the extent to which services are represented in the overall economy, and leaving us with ample room for future growth.

That growth is inhibited by the rules governing trade in services, which seriously lag behind those established in other sectors. In order for trade in services to realize its full potential, the T-TIP needs to reflect principles conducive to continued investment, competition, and innovation in the services sector. Such rules would provide for commitments to accord full market access and national treatment to service suppliers from the other jurisdiction, as well as providing disciplines for state owned enterprises that prohibit them from using their position to engage in anti-competitive conduct. The U.S. and the EU both have strong global express delivery companies and the T-TIP presents a unique opportunity for us to agree on high standard disciplines in this area that can eventually become the global standard.

Investment: With regard to investment, both the U.S. and EU have adopted measures which generally ensure a secure, stable, fair, and predictable legal environment applicable to direct investments. Pursuant to this regime, bilateral investment already totals a massive $3.9 trillion. The more than $2 trillion invested by U.S. firms in the EU represents approximately one-half of all U.S. foreign direct investment and generates $3 trillion in annual sales for U.S. business. Meanwhile, European investment in the U.S. creates employment directly for more than 3.5 million U.S. workers, and for many multiples of that number when supplier relationships are factored in. To capitalize on this already impressive bilateral investment relationship and lay the groundwork for even greater investment in the future, the T-TIP should incorporate a complete and ambitious investment promotion and protection chapter. This would include:

- A broad definition of investment;

- The right to establish and operate investments on a non-discriminatory basis, across the full range of economic sectors traditionally encompassed by trade agreements, including agriculture, mining, manufacturing, and services; this should be done on a "negative list" basis, with only limited and tightly defined exceptions;

- The right to transfer funds related to an investment;

- The right to transfer, process, store and manage data related to an investment;

- Allowing expropriation only for a public purpose, on a non-discriminatory basis, with due process, and with prompt, adequate and effective compensation for the fair-market value of the investment;

- High standard disciplines regarding competition with state-owned or state-controlled enterprises; and

- A robust investor-state dispute settlement (ISDS) mechanism.

Enshrining these principles in the T-TIP will enhance even further the favorable investment climate which exists in both the U.S. and EU, while also setting a strong example for third countries and for any multilateral framework that may be negotiated in the future.

Regulatory Compatibility: The subject of regulatory compatibility may hold the greatest potential of all for the T-TIP to confer economic gains, but is also likely to be one of the most difficult on which to reach agreement. Most people believe that regulatory issues are the primary impediment to increased transatlantic trade and that if we can reduce these regulatory barriers to a substantial degree we can greatly increase our two-way trade. To be successful we don't need fundamental changes in our respective regulatory approaches. Regulatory compatibility is about finding areas where there are unnecessary and redundant regulations on both sides of the Atlantic that can be reduced in order to simplify and facilitate trade, while maintaining the same high standards of consumer, investor and environmental protections. Regulatory compatibility is also about improving regulatory cooperation, transparency and best practices in order to reduce regulatory barriers in the future. This will require that our regulatory agencies participate in the process and help identify and support areas where progress can be made. This will be difficult work and we hope that both sides are genuinely committed to tackling these issues constructively. The devil is in the details, and the benefits will be in the details as well. But the rewards will be substantial, in terms of making the transatlantic market that much more competitive.

Trade Facilitation: Low Hanging Fruit that Can Jump-Start GDP Growth

A subject that holds great potential to enhance the competitiveness of the U.S. and European economies and increase GDP on both sides of the Atlantic is trade facilitation. Earlier this year, the World Economic Forum, in conjunction with the World Bank and Bain & Company, issued a report which concluded that eliminating all remaining tariffs in the world would increase global GDP by less than one percent, while instituting best practices in terms of trade facilitation could increase global GDP by almost five percent. The reason this is possible is that tariffs essentially serve to reallocate resources from one location to another, while improving trade facilitation actually eliminates the waste of resources. Getting rid of unnecessary red tape that raises the cost of trading across borders holds enormous potential for economic growth on both sides of the Atlantic.

The "gold standard" for objectively measuring a country's trade facilitation practices is the World Bank's annual "Doing Business" Report, one of the sections of which specifically focuses on ease of trading across borders. According to the 2013 Doing Business Report, only one jurisdiction within the T-TIP area, Denmark, ranks among the top five countries in the world for trade facilitation best practices (the others making the top five were Singapore, Republic of Korea, Hong Kong Special Administrative Region, and the United Arab Emirates). The United States ranks 22nd out of the 185 economies studied in the Report – not bad, but leaving substantial room for improvement if we want to catch-up with the Singapore's of the world. Of the 28 EU Member States, ten rank higher than the U.S., and 18 rank below us, with three EU Members finding themselves in the bottom 50% of the world according to the study. So we in the U.S., as well as most of our friends in Europe, have a ways to go in this area to bring our competitiveness up to world class standards.

One particular reform which needs to be included in the T-TIP is a commitment to an ambitious and commercially meaningful "*de minimis*" level – the threshold below which goods can enter the country without the need for a formal customs entry or payment of duties and taxes. The principle underlying *de minimis* is that the total administrative cost of requiring low value shipments to comply with complicated customs entry procedures designed to apply to large commercial shipments, considering the burden on the shipper as well as the government in processing all of this paperwork, may actually exceed the amount of duties and taxes payable. Therefore, common sense calls for simply "waiving-in" such low value shipments. In the U.S., the current *de minimis* level is $200, and legislation is pending in both Houses of Congress, with bipartisan support, to raise it to $800. This would be in line with the amount returning travelers may bring back to the U.S. duty free, and would still be below the *de minimis* level of some of our trading partners such as Australia, which has a

1,000 Australian Dollar level (approximately $962 U.S. at current exchange rates). In Europe, the *de minimis* level with respect to customs duties is €150 (or $207 U.S.), but it is a mere €22 ($30.36 USD) with respect to taxes in most EU Member States, and as low as €10 ($13.80 U.S.) in some Member States.

Thus, a U.S. consumer or small business wishing to purchase goods online from a European-based web site can do so up to a value of $200 without having to engage a customs broker, pay duties or taxes, or otherwise incur the burdens of making a formal U.S. customs entry. But a European consumer or small business seeking to make a similar purchase from a U.S.-based web site finds that their transaction generally becomes subject to payment of value added tax as well as the need to involve and pay a broker in order to collect the tax, once the value exceeds $30. Engaging a broker to complete all this paperwork could easily double or triple the cost of a $30 or $50 purchase, thus making it much more expensive and thus less attractive to the consumer. In an economy where e-commerce every day plays a larger role in empowering consumers and businesses to comparison shop and secure the greatest possible value from the dollars or euros they have to spend, it is critical the continued growth of e-commerce not be stymied by *de minimis* levels set too low to be commercially useful.

All recent U.S. trade agreements, including those with the Republic of Korea, Panama, Colombia, and Peru, have included mutual commitments to establish *de minimis* levels of $200 – the *de minimis* level reflected in U.S. law at the time those agreements were negotiated. As noted previously, bipartisan legislation is pending in Congress to increase the U.S. *de minimis* level to $800. Accordingly, the Business Coalition for Transatlantic Trade is calling for the T-TIP to reflect mutual commitments by the U.S. and EU to institute an $800 *de minimis* level, a proposal which FedEx fully supports. Such action is needed to achieve competitive parity for online retailers selling into the other market, to spare consumers and SMEs from disproportionate administrative costs in making low-value purchases from sellers based in the other jurisdiction, and to position the economies on both sides of the Atlantic to maximize their global competitiveness. It is also a matter of reciprocity; if the U.S. is moving towards a higher *de minimis* level, our trading partners should at least be moving in the same direction.

While establishment of an ambitious *de minimis* level is perhaps the most compelling trade facilitation measure the T-TIP needs to address, other commitments which should be incorporated include:

- adopting a risk-based, multi-layered approach to customs processes, harmonized among all EU Member States, which facilitates legitimate trade while impeding illicit activities;

- committing to separate physical release of goods from payment of any duties and taxes owing;

- committing to pre-clearance of imports based on advance data submission;

- establishing a "single window" for border clearance whereby all government agencies with responsibility for entry of goods coordinate their actions and consolidate their data submission requirements;

- enhancing coordination and mutual recognition of “trusted trader” programs such as U.S. Customs & Border Protection’s Customs-Trade Partnership Against Terrorism (C-TPAT); and

- committing to a separate and expedited procedure for clearance of express shipments.

Conclusion

The T-TIP presents a once-in-a-generation opportunity to boost economic growth, create jobs, and raise standards of living, for both the U.S. and our European partners. The U.S. and Europe have much in common, but we also have differences which, if appropriately reconciled in an ambitious and comprehensive T-TIP agreement, will provide a solid foundation for future economic growth, and assure the leadership of our two economies in establishing a trade regime that serves as an example to the world of a truly 21st century “gold standard” trade agreement. I urge the United States and the European Union to seize the moment to negotiate and conclude as promptly as possible such an agreement. FedEx stands ready to fully support the Administration’s support for this important initiative.

I would also add that FedEx fully supports passage of new Trade Promotion Authority (TPA). An ambitious trade agenda is critical to America’s economic growth and vitality and TPA is an important part of that agenda. Much has changed since 2002 when TPA was last updated. A new TPA will give us an opportunity to update our trade objectives to better fit the rapidly evolving global economic and commercial landscape.

Chairman Baucus, Ranking Member Hatch, and distinguished members of this Committee, thank you for the opportunity to share FedEx’s views on this critically important initiative. I would be happy to respond to any questions you may have.