



4th TRANSATLANTIC MARKET CONFERENCE

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Washington, DC

This Conference was organized by the Draeger-Stiftung, DIN and the US Chamber of Commerce, with support from the American National Standards Institute and the German American Business Council. A major focus of the conference was the role of standards in enabling trade.

SUMMARY:

STANDARDS: Standards can facilitate or block trade, add or subtract from the GNP. They provide a common language between long distance buyer and seller, supplier and manufacturer. They permit reliable integration and interchangeability of products. Standards trail innovation but should not hinder it. They play a different role depending on where the product or technology is in its development curve. They arise only when a certain mass is achieved in the industry and are then created by private or public organizations, by experts, trade groups, competitors, and the public in general.

The US and EU have different ways of developing standards. Setting standards can create winners and losers. Compliance with high standards adds credibility to a product and reduces the risk of liability. Mutual recognition of competing standards can work in some situations and not others. The absence of common standards increases the cost of products, often without any benefit. However, some standards are only minimums and bring safety risks with them. Standards apply in many small ways, such as bank credit cards, which work all over the world. Setting standards is often political and has a nationalistic, win-lose aspect which makes cooperation difficult. Standards allow development of spin-off, supporting technology. Standard harmonization requires political pressure. The EU has generated experience through harmonizing the standards of its member countries.

ECONOMIC CRISIS: The US/EU are losing influence and China and the BRICs are gaining. At the same time, we face a worldwide, continuing economic crisis. The US was largely to blame for the crisis, although running a large trade surplus by currency manipulation is also part of the problem. The US's adjustment from a spending to a saving nation is painful. Compounding this is the deleveraging of banks and other lenders, which takes capital out of the market. The markets require more regulation, but uncoordinated regulation will cause arbitrage as money seeks the lowest level of regulation.

Non-tariff trade barriers are increasing. The absence of homogenized standards is one such barrier. The US created trade barriers in the name of security post 9-11. The economy was slowing even before the current crisis. The recovery will be slow. Bankers and economists created this problem, but politicians have to explain it. Despite these pressures, free markets prevail. Transitioning back to the pre-crisis role of government will present its own problems.

GERMANY: Germany is hard hit economically because of its great dependence on exports. Its GDP will decline 6% and grow only 0.5% in 2010. Its stimulus package is close to the US level. Much of it goes to R+D and job training, particularly in green energy. Talk of reducing German taxes makes little economic sense. The September election has motivated politicians to shield voters from the full economic impact.

CLIMATE CHANGE: The federal government has abdicated its role, resulting in uncoordinated, inefficient state regulation and directionless industry. The Obama Administration and Germany work closely together on this subject.

AUTO INDUSTRY: The world has an overcapacity. Downsizing will be painful and happen at a time when governments pressure automakers to change their technology and build smaller (less profitable) cars. Governments regulate the car maker when other parts of the problem are less capital intensive. Higher gas prices (through tax) may have to be part of the solution. Several speakers supported new clean diesel technology as a short term solution. No one fuel is the clear answer. Some consumers want mobility, not cars.

INTERNATIONAL ORGANIZATIONS: NATO has gone from being a problem solver to being a problem. It is not equipped to solve non-military problems but it prevents appropriate organs from being created.

ENERGY: Energy efficiency requires a smarter electrical grid. Green energy can create jobs, but it will have a limited role on the economy.

DETAILED NOTES

INTRODUCTION - Developing common standards reduces international trade transaction costs. Tariffs play only a small role as barriers to trade. The problem area is non-tariff barriers. The absence of uniform standards extends to all areas of cooperation, such as climate change and new, renewable sources of energy. Exporting countries in particular want to see commonly accepted, harmonized standards. Otherwise, their manufacturers have to produce multiple versions of the same product. The EU has accumulated significant experience in the harmonization process among its many members. China is watching this process.

Standards boost trade by giving distant trading partners assurance of what is being bought and sold; buyer and seller speak a common language.

Areas driving this process today include homeland security, healthcare technology, the energy grid and climate change.

REINHARD BUETIKOFER (Speaker for the German Greens) – We have entered the age of the “Green New Deal.” Also developing countries feel this change. It offers opportunities for the economy and for climate control. President Obama and Governor Schwarzenegger speak of new green jobs and environmentally friendly growth. Changes in the environment are occurring faster than predicted. 3 billion people will be affected and forced to move. Water shortages and CO2 are major factors. Silvio Berlusconi states that we cannot deal with the atmosphere at the time of an economic crisis. But green

innovation will help solve both problems. It creates new jobs and competitiveness. Germany already has 280,000 new jobs in the renewable energy sector and expects 210,000 more by 2020. Eight percent of the German economy is “eco.” The auto industry is being affected, also homes. By 2020 China will build the same number of houses as exist in Europe.

Politicians find cap and trade easier to sell than new taxes. The price tag for CO2 becomes interesting at 30 Euros per ton. It is impossible to introduce a tax in 27 European countries. So the question is not what system is the best, it is what is possible.

As to the electric “base load” problem, the grid can be part of the problem. DC power can be transmitted over long distances with low loss. Solar power from North Africa can be stored in dams in Scandinavia. Wind is always blowing somewhere. As to the subsidization of new green technology, coal and nuclear power are still subsidized. Government has to help infant industries, such as solar panels on homes. Biodiesel lost credibility due to the destruction of the rain forest. People saw the net loss to the environment.

STUART EISENSTADT (Covington & Burling) – Two historic economic events have recently converged. First, economic influence is shifting from Europe and the US to developing countries (BRIC countries and others). These developing countries are now 45% of world GDP and have 65% of the world’s currency reserves. There is a clear shift to Asia, China and South America. A major task of the US and the EU is to help organize this process, to let it happen in a constructive way. Second, we are also in the great recession – the biggest since WW2 and since the Great Depression. 2009 is the first time in which there is a *global* downturn: the first downturn in global trade and the first time there have been simultaneous recessions in all the engines of economic growth – the US, EU and Japan. 98 countries will have problems with their public and private debts. This recession is a product of the absence of regulatory oversight in the US, the presumption that home prices would continue to go up, and Americans living beyond their means. Out of control borrowing occurred at both the national and household levels. The US has a 120% debt to asset value ratio.

The shift of financial power to China and Brazil has not been followed at the same speed by their growth in accepting responsibility. We see this in their international positions on trade and global warming.

Solutions?

1. Coordinated monetary and fiscal stimulus – The EU is playing its role, although Germany and France have resisted adequate fiscal stimulus. The US and China have been the ones to inject stimulus. China has embarked on a massive infrastructure program and begun to provide additional financial support for its citizens. The reason for the recession is not just US failures. There were global imbalances, such as Chinese surpluses, depending on US and EU purchases. The necessary changes will be painful. We went from a zero savings rate to 5% very quickly. This transition is wrenching. 70% of our GDP is consumption, so when Americans stop spending and start saving, the economy feels it.

2. Coordinated regulatory reforms between the US and EU to be sure banks become healthy again and resume lending - Banks are still not lending. Even the “successful” banks are not lending. Ask borrowers. Even basic credit is hard to get. This is not the old-style lending. So, the pendulum has swung too far. Much US lending was from non-bank lenders. The lending process requires adequate capital standards and regulation of private equity and hedge funds. Otherwise we get “regulatory arbitrage.” Lenders will seek out jurisdictions with the least regulation.
3. Coordinated trade and investment initiatives - 47 countries have recently added to their regulatory and trade regulations. The Chinese have imposed severe restrictions on the use of their stimulus funds. The G8 needs to complete the Doha Round by the middle of next year. Doha will not add to US budget woes. We need a barrier-free transatlantic marketplace – There are no significant tariff barriers. The lack of standardization is the main barrier. The US/EU should follow the EU model of harmonization. The EU has adopted internal mutual recognition of local standards. We did this with accounting standards recently. The US and EU standards of accounting are different but sufficient. So, there is no need for reconciliation. This change has saved billions.
4. We need to strengthen financial institutions. The IMF has again become an important institution. Its resources have increased to \$1 trillion. The funds are being used in Hungary, Turkey, Pakistan and elsewhere. The funds have been offered without the same strict limits as before.
5. Climate change – (Eisenstadt negotiated for the US in Kyoto.) President Obama has made a major shift on the national, government level, but change had already begun in the private sector and on the state level, such as in California and the Mid-Atlantic states. But the US will not achieve the European goal of 20-2020, a 20% reduction by 2020. The US began very far behind. So the US has to look at a different solution than Kyoto. China is now the largest emitter of CO₂. We need a border carbon tax for countries which do not impose their own limits.

This recession will end, but the recovery will be sluggish, not V-shaped. There has been so much structural damage. Unemployment is a lagging indicator. We will hit 10% unemployment with more foreclosures. Housing got us into the mess and we will not get out until housing picks up. So we will see underperformance for several years and high unemployment as well. China will be the big winner. The US has a deficit of 12% of GDP – a rate never before seen in peacetime. In contrast, China can finance its stimulus internally. As a result of the Chinese infrastructure investment, Chinese productivity will improve.

FRED IRWIN (American Chamber of Commerce in Germany) – To put international investment in perspective, there is more US investment in Brussels than in China and more German investment in New Jersey than in China.

Reaction to the recession has been dictated by historical attitudes. The US acted quickly, but Americans do not like the state being involved in their private lives. Germans are much more comfortable with the role of the state. For example, university tuition is paid by state. Germany reacted slowly and cautiously, influenced by its experience with inflation and the 3% limit on deficits. In contrast, the US has almost always been a debtor nation. [I find this comment particularly interesting. Although true, most Americans do not know this and would resent being told this.]

The solutions?

1. Restore confidence.
2. Avoid protectionism. “Buy American” legislation has been on books since 1930’s but it’s administered thoughtfully. There are no concrete examples of German companies being disadvantaged. Similarly, Germany has been a very open market for US investment. Germany, too, has a restrictive law – the “Aussenwirtschaftsgesetz.” If an investment comes from outside the EU into Germany and more than 20% of a German company is purchased, then Germany has 1-3 months to veto this purchase. This was initially adopted as protection against state funds and private equity. It too is a protectionist law. Minister Glos pushed this through. But as a practical matter, it has no real effect.
3. TransAtlantic Business Dialogue (TABD) – it is a valuable mechanism. Clinton Secretary of Commerce Ron Brown started it. We need a framework, with short and long (4-7 year) term.
4. Cooperation – This should occur in a number of areas, in particular climate change and energy dependency. The US and EU consume 40% of the world’s energy. We should be a source of mutual inspiration for each other. [Irwin called for becoming independent on foreign energy. This is impossible and an odd goal in the context of promoting international trade.]
5. Eliminate fear and ignorance.

PROFESSOR KURT LAUK (Economic Council of the CDU) – Mr. Lauk addressed three related topics: the need to understand how we got into the present situation, lessons learned so far (we’re in the middle), and consequences for the transatlantic relationship.

1. Wall Street - The center of the problem was Wall Street. The crisis was an act of systemic irresponsibility. It took a great deal of cooperation to create. Regulators approved “innovative” financial products and others did not recognize their risks. These risks stemmed from the people who created them. They bear the responsibility. We are now back to 2006. African countries are thrown back farther. The process is hard for politicians to explain. We now need to balance budgets, and to cut social welfare and medical aid, so the voter is hurt. But then the bankrupts ask for aid and get it. So there is a social cohesion and political component. Self correction of financial markets is a “fairy tale.” For example, if we didn’t need rules, stealing would be less expensive. In 1990’s the leverage of banks went up. Mathematical calculations were wrong.

Options permitted were very obscure and hard to understand. Initial targets of some sophisticated products were large and sophisticated institutions. But then the target market became smaller and less able to judge and accept the risks. Short term, everyone was benefitting, so no one stopped the process. US households were net spenders, zero or negative savers. If this analysis is correct, then we know some of the things to change.

2. Trust -New and more regulation is necessary, but it will not prevent the next crisis. Credit comes from the word for trust. Trust has to be regained. Regulation is not sufficient. There is a report from various meetings with recommendations, some with 100's of recommendations.
3. New regulations – We are undergoing and need significant deleveraging of the banking system, which means taking credit out of the market. But at the same time, we cannot kill syndication. Worldwide banking needs to work with more equity, which means making and keeping more money. Derivatives must be traded on an exchange. All financial actors need a level of transparency to permit regulators to see what is going on. This means hedge funds must be required to set forth their strategy. If they all follow the same strategy, this will mean greater risk. The hedge fund leaders will fight this. Rating agencies must be supervised and regulated. They were part of the problem. They acted in collusion. How can you have 6,000 AAA rated investments? We also need new accounting rules and longer-term time horizons. We also have to deal with the “too big to fail” issue. We have to close tax havens. These issues should be discussed September 24-25th in Pittsburgh. But how can nations agree when there are not enough common standards?

There will be minimum consensus in Pittsburgh. The window for regulation is already closing. Bankers are going back to business as usual. They will fight the reform measures mentioned above. They do not want a new regulatory framework. The “big hit” to the economy is yet to come – in 2010 – when consumers will first notice what has happened. [This may be true in Germany, where the election will serve to hold off any real pain.] Many businesses have reduced inventory, but this source of cash is one time and will be lost by then.

Other issues we are facing include Iran and its nuclear program, energy, terrorism, regulation and climate change. Bigger and longer-term issues also loom. Major corporations will have to change their value-added chains. If the US wants to balance trade, it must import less and export more. Germany has to adjust its auto industry. The world produces 100,000,000 auto units a year, but demand is only 55,000,000. This coming adjustment will affect the machine tool industry. So, there will be a paradigm change in the US and Europe. The next big problem will be exchange rates between countries. The US needs to decrease the value of dollar. This process will be slow. The EU Central bank is obligated exclusively to monitor stability. Regulatory arbitrage will be a problem. Also protectionism is on the rise. The American Recovery and Reinvestment Act has buy American provisions. EU legislation will do the same. China also.

If the EU and US do not pull together, they will not have enough weight to impress the rest of the world.

BOYDEN GRAY (Former US Special Envoy for EU Affairs) - Fannie Mae and Freddie Mac made a market for products which never should have been sold. Hedge funds did not cause the crisis, but rating agencies played a significant role.

What roadblocks will hinder cooperation? We do not have the continuity we need. NATO takes up too much space. NATO is not what it used to be during the Cold War. International financial cooperation predated NATO. The German Marshall Plan came earlier. Economic issues are not military. Afghanistan is largely an issue of reconstruction and drugs, not just military. Turkey blocks NATO functioning normally due to the membership of Greece and their mutual animosity.

KATHRYN HAUSER (Executive Director Transatlantic Business Dialogue - TABD) – Ms. Hauser made three main observations –

1. Standard setting plays an important role in international business but often the debate has been about whose engineers are the brightest.
2. Transatlantic trade has found a way around the problem of uniform standards. Governments think of themselves nationally, but corporations do not. Governments need to catch up.
3. Governments are under incredible pressure to increase employment and trade. But they have fewer methods to get out of the current crisis. So there will be pressure on business to show the jobs are being created. Where is the “big bang” from all these sorts of conferences?

Ms. Hauser asked whether there can't be cross-government recognition of foreign standards. We have different standards and different reasons for different standards. The developed world needs to “get over it” and adopt mutual recognition of standards. The US and EU are facing increased competition from the BRIC countries.

ROBERT NOTH (Former Manager Engineering Standards, Deere & Company) – Mr. Noth described three goals:

1. A positive reciprocal trade environment
2. Common standards, to avoid the need for special modifications
3. Mutual acceptance of standards that are not common.

There are a great many standard makers. They have committees, which are very sector specific. The US has legislation requiring companies to use private standards. So the tools for making standards are in our hands. How do we vitalize them and get regulators to use them? We need more political pressure. This pressure should be on the experts who are continuing to argue. We should care more about our common interests. The US and EU represent 10% of world's population but 60% of the GDP. We should forget trying to achieve a common set of rules. Instead, we should strive for mutual recognition and focus on the health of the consumer. Why can a clinical test done in the US but it is not recognized in Europe? As to genetic engineering, this is a trend that can only be slowed, not stopped.

HAUSER – It is estimated that mutual recognition of standards would add 3% to the growth of the countries affected. Standard setting people are in little silos and not able to see the effect they are having.

NOTH – It costs John Deere a lot more to build a tractor to European standards than to American, but in the hands of the farmer, they are both equally safe.

PORDZIK (DHL) – 9-11 created lots more rules to protect the supply chain against terrorist attacks. The US Congress has taken a unilateral approach. All transport companies fight for mutual recognition in this area. The US Congress has not been involved in harmonization. It has been the source of increased disharmony.

FLOOR SPEAKER – What ARE the barriers we can remove? Some cannot be removed. Once barriers arise, it is hard to remove them.

NOTH – Americans call for harmonized road regulations in Europe. Lighting and marking on Deere's products have to be different for each country in Europe. Deere cannot sell a product in Germany if it was made for France. There used to be harmonization. There is a public safety issue here. The laws of some countries will have to be overturned. So, mutual recognition does not solve these problems.

FLOOR SPEAKER – What good is mutual recognition of electric sockets if your plug doesn't fit? The Chinese have their own LAN (local area network) standards. We can recognize them, but our laptops still will not work there.

FLOOR SPEAKER – Europe is starting to regulate CO2. But France and Germany have different formulas. So are institutions able to deal with these issues?

NOTH – Innovation outpaces the public sector. Industries adopt voluntary standards because the private sector moves faster than the public. Governments cannot lead where technology goes. So there is always a lag. Some companies make bad investments. Good products fail when better ones hit the market.

HAUSER – The TABD talks about these issues, especially in health care, government funding of R+D and energy efficiency. And governments discuss sharing these advances. Siemens is not just a German company and GE is also in Europe. Siemens has 70,000 employees in the US, so a Florida congressman cares about Siemens. Innovation is not happening in India and China at the same rate.

GERMAN POLITICIAN – Well, we did get to cohesion on US-EU accounting. So there can be some progress. Certainly, the EU has gotten some place which many Europeans would not have accepted 50 years ago.

GARY KUSHNIER (VP, International Policy, American National Standards Institute) – Your ATM card has standards. It's plastic. The size is standard. So is the thickness. US banks like magnetic strips. Germans use imbedded chips. But if you put in your card, money comes out. These are standards. These are

private sector standards. But private US standards makers cooperate with the government. Regulations are mandatory standards. Voluntary standards CAN become mandatory. In Maryland, you have to wear a motorcycle helmet. That helmet has a private standard.

PROFESSOR THOMAS BOELLINGHAUS (VP, German Federal Institute for Materials Research and Testing) – There are success stories in standardization, for example laser standards. Lasers go back to Albert Einstein. He brought lasers to the US. Berthold Leibinger (Trumpf machine tools) noted the possible application of lasers to cutting equipment. Trumpf learned several ways to use the laser – for cutting and joining. It developed lots of ways of measuring what a laser does. Standards simplify the application of one machine to another. This efficiency permits scientists time to deal with other issues.

What can be standardized, what not? There is a gap between theory and practice. Those working on the practice don't see the theory. It is not practical or efficient to get multiple groups of competing standards. This costs money. There is always an idea behind standards.

Mr. Boellinghaus thinks the new areas of interest will be water and other scarce materials.

JAMES THOMAS (President, ASTM International) - This company was formed in 1898. It receives no government funding. It sells IP. It collects some membership dues. It published 12,000 standards. It is based in West Conshohocken, Pennsylvania with offices around the world. It has 32,000 members. 1,400 members come from Europe.

Mr. Thomas described two projects showing the impact of standards on companies. One study was done by the University of Texas. Another measured how executives' thinking on standards affected profits. So, why do companies participate? 1) low costs, 2) protection against market shifts, 3) credibility with customers, 4) continuing education, 5) individual benefits; 6) maintenance of product quality; 7) survivability of products; 8) confidence; and 9) managing risk and liability.

Businessmen see the impact of standards on their business. 85% of companies thought standards helped trade, especially testing requirements.

Participation in setting standards depends on the size of the organization. Even among companies with fewer than 100 employees, 38% engage in standards development.

Quality, relevance and acceptance are the goals. Manufacturers want one standard, but one that *its* products meets. Sometimes acceptance is a political matter. ASTM believes in science, not politics.

The substance of standards has to be flexible to keep up with innovation. Standards must also reflect integrity.

Relevance is finding a real solution for real problems in real time. Standards are not an end in themselves.

Some standards are developed and adopted for political purposes. They may be to protect existing businesses and markets. Trade agreements sometimes include standards. They can be used to help or hurt trade.

MARY SAUNDERS (Deputy Assistant Secretary for Manufacturing and Services, Department of Commerce) – Standards are critical to international trade. They create a bridge between research and product delivery. And they aid communication. Standards have to relate to a product's development cycle. Standards aid in interconnectibility. They promote information sharing and common technology. IP is a significant factor. Different patent regimes and attitudes about the ownership of innovation have a direct effect on standards and standard setting.

Areas of developing standards include biometrics (identity recognition and management) and nanotechnology. Nanotechnology is very fast moving and generates a great deal of international interest, much more than biometrics. Nanotechnology generates environmental and health issues. Regulators are interested in these developments. They need terminology for communication. Some groups bring groups together and facilitate the process. Biofuels are also an area of standards development. This area has big government and political components. Far-reaching policy goals are involved, including the reduction of gas consumption.

But in the area of standards, one size never fits all.

DISCUSSION – Nanotechnology in the laboratory is way ahead of standardization. How can we get organizations to work together without losing their identity? ASTM has itself never developed a standard. It's the industry and government that do that. Why doesn't redundancy get reduced? It is NOT ASTM that creates this problem and the standards industry goes to lots of different venues to work on this problem.

OPEN DISCUSSION – Question/Statement – Transatlantic cooperation will not be influential. Why don't organizations move directly to global standards? Do we expect the world to follow the transatlantic community? What about the Japanese, the Chinese?

Answer - No, not at all. At the US Department of Commerce, the locus of activity is shifting. Regarding biofuels, the Indians, Chinese and South Africans are involved. Yes, the Chinese have become more influential.

Thomas – The standards industry is certainly not focused solely on the North Atlantic. The industry is very global in its thinking. But ASTM is not accepted much in EU for compliance. ASTM does not produce norms which are accepted for ISO or European norms. So work has to be done on both the transatlantic and worldwide level.

Boellinger – There is a problem in standards development – safety is the big issue. Standards setters cannot just rely on minimum worldwide standards. Technical safety is very high in Germany and US. If a

product meets a high safety level, it can be marketed worldwide. But China and India try to take over standards setting. They want to have agreement on minimum standards and safety will suffer.

ISO created by national delegations and country vote. ASTM is driven by technical experts, representing their own self interests or the interests of their company. ASTM is driven by the market place. There have to be enough interested parties to take a role. Requests for new standards come from various areas. Sometimes they come from consumer groups. Then they try to work globally. The product has to have an international market before people care enough to send delegations. They control how many representatives from different areas and interest groups. ISO is just a different process.

Germany is an influential entity at the international level. The German Standards Institute does a good job of representing the interests of German industry. The speaker would like to see ASTM participation by Germans. But Germany focuses on DIN and ISO. ASTM does work with DIN.

The US and European systems are different, but they lead to excellent result. The acid test is what standards are accepted in the market place and accepted by governments.

KUSHNIER – Innovation and Standardization – There is a saying, “When the wind blows, some build walls and some build windmills.” Two areas of development are global warming and investing in high-tech technology. China is spending more and more on R+D.

What are the effects of the global financial crisis on Germany? The German GDP will decline 6% (2% in US). There will be only a slight recovery next year. He expects 0.5% growth in 2010. This results from Germany’s great export dependency. How can this result be improved? By domestic demand and infrastructure and R+D spending. Germany needs long term innovation and to use this time to gain strength for the competition ahead.

In the US, the stimulus package was 5.5% of GDP. But in looking at Germany’s package, if we add its automatic stabilizers, then the German package is 4.7%, relatively close to the American package.

A lot of German stimulus goes to R+D for new sources of energy. Another part of the strategy is to support German areas of strength – research and education. Germany has adopted emphasis on higher education excellence; this emphasis is as a result of a perceived weakness there. Research has increased at the Fraunhofer and Max Plank Institutes.

Germany wants to move ahead with the Doha Trade Round and to watch out for protectionism. The transatlantic initiative under Merkel and Bush is important and continuing. Germany is also interested in transatlantic integration and is getting support from President Obama. We need a political incentive to move standard harmonization forward.

The US misses out on \$40 billion in exports due to non-uniform standards. The German answer to this problem is to harmonize regulations to reduce transaction costs.

KATE GORDON (VP, Energy and Climate Policy, Center for American Progress) –In the past, these initiatives in the US were in competition with other countries. There are two levels to consider here, domestic and international. Countries feel that they have to WIN. This makes the political aspect more difficult.

Government plays various roles. It purchases services and products. Its purchases may help the product or technology meet required minimum mass. But the US government is less willing to invest. We face major infrastructure requirements. The US has not worked on its electrical grid. Germany has done a lot of employee training in new energy areas. China and India have established industrial zones. The new US bill WILL have parts to help small business invest in new tools.

The government needs to send a public signal to investors to invest in these areas. Government should indicate that it will not pick the winning technology. Industry and labor partnerships should be encouraged. China spends 3% of its GDP on clean energy, a BIG amount.

Can the US see today's problems as we did with the space program? Unless we do, we will not take significant action.

ADAM POSEN (Deputy Director, Peterson Institute) – Some entrenched interests will have to be "inconvenienced" to reach a solution. Here are five points.

1. Globalization - The backlash against globalization has been limited. India and Brazil have stayed free markets despite the downturn. There has not been much finger pointing at the US. Germany's grand coalition has been among the worst of the finger-pointers. So most people are against trade barriers. Some Germans have pressed for advanced nations to band together *against* the emerging markets. (Was this Merkel at Davos?)
2. Exports – A trade surplus does not mean that everything is working fine. Some importing of capital is good, assuming it is used to become more productive. Recently we have imported capital without applying it well.
3. Sources of sustainable demand – The German Green party has been quite visionary. Green is the engine for new jobs. The rate of growth for the US and Germany for the next years is not very good. It was not so good even before the crisis. Productivity growth was slowing already. This fact got lost in the crisis. This was bad news already. Green energy investment will not lead to vast amounts of growth. Many of the accomplishments of the Grand Coalition are really Schroeder labor market reforms.
4. Exit Strategy – How much is government in or out of the economy? We have seen some nationalization and unlimited guarantees to private organization and harsh intervention in the auto industry. So, the US is behaving like Brazil and India in 1970's. No one wants these measures to continue. There is no reason to be worried about the line between public and private. Yes, there will be more regulation, but no wholesale reversal. The rules have not

changed that much. But the international scene is complex. 1) governments have to get out of their guarantees; 2) budgets have to get back on track; 3) normal interest rates need to be reestablished. In each of these areas, the issue is domestic, but with international implications. For example, Irish guarantees caused the UK's guarantees, which caused the EU's which caused the US's. Otherwise capital would have moved around more. If countries get the solutions to these problems wrong, exchange rates will change.

So mainly we are running up against the hard limits of economic growth. We are living in a world of low potential growth and China is coming.

All countries other than the US and possibly Japan have a social market economy, like Germany. These countries use 1/3 less fuel to support the same number of people.

GERMAN COMMENT– The German model is working, but every model needs adjustment to the new situation.

German employers want to keep their employees for when the economy comes back. They made this mistake (downsizing) in 2001/2002. But it is hard to find useful work during this period. The businesses want more support for research to keep their employees busy and productive.

How will government and industry train people for the new green economy with skills that will not be dead end?

Germany creates a lot of patents but has a harder time creating businesses based on this apparent innovation. The US and Germany are the only members of the OECD that have not increased their percentage of people going on to college.

Tax policy – Posen says this is a side show. We would have been happier if we had spent more money on green technology over the last eight years than on tax cuts. Health coverage is a first priority issue. If he had his way, Posen would pay for health coverage with a carbon tax. He cannot believe the Germans are talking about another tax cut after the next election. Why would Germany do this? He's in favor of harmonization. Otherwise you get arbitrage.

German Comment – Yes, there is a bias against venture capital. It has an effect on formation of businesses.

How do you have a government energy policy without picking winners and losers?

Question about how to train US employees to build cars. The German model of training is better.

Posen – The difference between the US and Germany is not the worker but the management. Germans achieve fine quality with US workers. But the problem is, if companies know they will

keep in business due to the need for the jobs, management runs the business differently knowing the company will be supported regardless of its product.

American – We should look to use the same employees for other applications, retool the old workers. She notes ethanol was not a great policy, but those plants are being refitted for other purposes which do make more sense.

German –[Going back to the car/worker issue] It is not just workers or management but also the home market including incentives that drives quality.

Feddersen – The people who created the mess are still in positions of power.

The solution to the “too big to fail” problem? Put a size limit on banks! (Adam Posen).

German – Steinbrueck criticized the Brits for not doing enough about their bankers. The UK government follows London, said Steinbrueck. This pertains to hedge funds. But Posen says the hedge funds are not a significant part of this problem.

Regarding the difficulty in getting loans, German companies want government paid R+D projects as leverage for getting loans from banks.

AUTO INDUSTRY BREAKOUT

GUNTER ZIMMERMEYER (VP, Deutsche Verkehrswacht) – The relevant industry in Germany is not just autos but also trucks and trailers. There have been efforts to build bridges among competitors. Daimler and Chrysler tried to do this on a private basis.

DAVID McCURDY (President, Alliance of Automobile Manufacturers) – Demand has dropped from 16 million units to 10 million worldwide. Companies continue to invest in R+D and innovation. There have been three voices on fuel economy: California, a group of 13 states and NISA. In the case Massachusetts vs. EPA, the EPA was also given a say in setting fuel economy standards. There is now an interaction between fuel economy and gas emissions. The government and industry need to find new incentives for the right technology. 30% of a car today is in electronics. Companies have to invest now to compete when the recovery comes. We need a “silver buckshot” solution, not just a silver bullet. McCurdy does not know which technology will be the next winner, but he likes clean diesel.

MARTIN JAEGER (Global External Affairs, Daimler AG) – German auto companies in the US offer the most secure jobs in the US auto industry. There has been a 30% decline in US auto sales. Worse, there has been a 40% decline in the sale of commercial vehicles. two basic trends worsened the crisis: 1) there is a growing need for cars. 800 million are needed worldwide. But this expands to 2 billion by 2050, reflecting Russia, India and China; 2) the trend is to down-sizing. There is overcapacity and a trend to smaller cars with smaller engines. Strategies work only if there is joint public-private cooperation.

- 1) The traditional engine – This has more development to go. New diesel engines meet fuel and CO2 standards.
- 2) Hybrid is progressing. There is a diesel hybrid. A fuel-efficient luxury car is in the works.
- 3) Zero emissions. There is also progress in batteries and fuel cells.

We need to think in terms of new mobility concepts. Ulm has developed a car-sharing concept. It next comes to Austin, Texas. Some people want access, not ownership. [This will greatly change the relationship between people and their cars.] So business must sell mobility.

The price of electrical cars is too high. A Smart car costs \$15,000. But a battery alone costs \$15,000. And the battery requires infrastructure.

There needs to be more cooperation between OEM's and suppliers and between government and industry.

DAVID GEANACOPOULOS (Chief Legal Officer, Volkswagen of America, Inc.) – VW serves different segments of the market. VW is underrepresented in the US. VW has 10-11% of the market worldwide but only 2-3% in the US. VW has nine brands, but many fewer in the US. VW intends to grow here, with products specifically designed for the US market.

VW foresees different fuels, possibly electric motors. It views technology short and long term. Short term the focus is on clean diesel. It hopes for 12-15% of the market overall but 30% of its line in diesel. This technology makes the best use of existing resources. VW partners with battery producers. It is trying to adopt green technology and attitudes. It cooperates with partners in California and with Audi in Ingolstadt, especially regarding electric drives.

VW has moved its headquarters to Virginia and is supporting US engineers, including schools in Virginia. It focuses on specific engineering, materials and supply chain issues. Already in 1992 Helmut Kohl saw that Germany has to look at many different technological solutions for automotive problems, so industry would have options for solving those problems.

WOLFGFANG WINKLE (Director, Fuel Cell Lab, Hamburg University of Applied Sciences) – There are different sources of energy and different methods of converting energy to motion. Energy storage is also a factor, especially with new technologies. The grid could be part of the storage solution. Some systems work for land transportation but not for water and air. In any event, a smart electrical grid is essential to any solution. Most improvements are incremental, not magic solutions. [This presentation was fascinating, but too scientifically detailed to recount.]

DISCUSSION

McCurdy – We need to increase the price of gas. With \$4/gallon gasoline Americans traveled 4 billion fewer miles. We have to consider a gas tax. The auto industry is highly capital intensive. Why not regulate other parts of the auto chain. He had been told there is no such thing as price elasticity, but we

in fact found that point at \$4 per gallon. Public policy has to be tied to economics, not just regulations. We need strong federal leadership. There has been none in Washington for 10 years. The role of the states will decline if Washington takes the lead. The Clean Air Act was not intended to deal with greenhouse gasses because we did not know then that they were a problem.

Geanakopoulos – Regulators assume that automakers have to be told what to do. He would like to see real performance-based standards which permit innovation.

Jaeger – He would like to see more support from energy suppliers and a hydrogen infrastructure.

Winkle – He finds there to be too much administration and too many restrictions.

McCurdy – Solutions will require a sustained research approach. We are only at the beginning of solving this problem. Short term he would like to see a groundwork for the next five years and more collaboration among OEM's, suppliers and government.

KLAUS SCHARIOTH (Ambassador from the Federal Republic of Germany) – Germany can really feel the difference with the Obama administration. Germany works very closely with this administration. The Waxman-Markey “American Clean Energy Bill” was just passed. This has three wins: energy, climate and dependence on foreign and fossil fuel. Germany depends more than others on foreign sources. Already in 1992 Germany introduced measures to reduce energy consumption and emissions. Germany will have higher standards than anyone else. Between 1990 and 2009, Germany reduced CO2 emissions by 32%. Renewable energy sources have gone from 4% to 15% of the mix. Perhaps this is because of traditional German concern for nature. At the same time 30% of Germany's GDP is manufacturing. Germany has produced 280,000 new jobs in renewable energy.

Introducing Ms. Albright, Ambassador Scharioth noted the many phone calls he sat in on with Foreign Minister Fischer regarding Kosovo. The level of cooperation between Germany and the US was excellent then.

MADLINE ALBRIGHT (Former US Secretary of State) – She recalls Joschka Fischer yelling in excitement during one of those calls. He was watching a soccer match in the background and Germany had just scored a goal. Germany plays an important role in moderating between Russia and the West. Areas in need of international cooperation begin with the Doha Round. It is now in its eighth year. The world needs more confidence in the benefits of trade. The nuclear non-proliferation treaty needs loopholes closed. We need to increase understanding with the Muslim world. President Obama has made a start. We need to get rid of stereotypes, also to reduce the military in Iraq.

Ms. Albright is no fan of the current president of the Czech Republic. It needs to sign the Lisbon Treaty. She is surprised that Vaclav Klaus is taken seriously.

The Russians should be glad that they are not the center of US attention.

We have now been in Afghanistan for eight years. Asked why Germany should be there, she reminded the group of the non-Americans also killed on 9-11 and of terrorism in Europe. Furthermore, NATO brings duties, not just benefits. What is the nature of an alliance? The expansion of NATO was not intended as a threat to Russia. They claim we did not show respect. But the US was very, very sensitive to the “devolution of power by a major adversary.”

Globalization is a good thing, but people may feel lost in the process and seek security through identification with groups. It is a process that cannot be stopped. Countries have to cooperate to prevent protectionism.

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