SNAPSHOT

Anti-US Sentiments – A concern for business?

19 February 2015

INTRODUCTION

Economically and politically the EU and the US enjoy a close beneficial relationship, maintaining prosperity within their regions as well as globally. Since the end of World War II, both powers have dominated global trade: together, the EU and the USA have the largest bilateral trade and investment relationship in the world, roughly 31% of world trade and over 49% of world GDP.[1] Geopolitically the EU and the US remain close partners; not only cooperating in international organisations such as NATO or the OECD but working hand in hand in the fight against terror and in conflict areas in the Middle East and Africa. Also in the Ukraine-Russia crisis, in the EU's neighbourhood, the EU relies heavily on the support of the US.

After many years in which US businesses focused on emerging economies for investment opportunities, they are again looking to Europe. A politically stable environment and low costs of investable assets due to many years of low growth, make Europe again an attractive investment destination. Even still, they have regularly differed with each other and have often had quite diverse political, economic, and social agendas. Understanding this complex relationship today is thus crucial for maintaining and enhancing business opportunities in the long term.

However, in recent years a general anti-American sentiment seems to have entered the public debate and mainstream politics in the EU. This could impact the attitude towards US businesses in Europe and also influence decisions that are critical for investing in Europe. In this snapshot we examine why the US is viewed more critically in the EU, taking a closer look at France, Germany and the UK, also considering what impact this might have on businesses and what these can do to address negative perceptions of US business.

The EU perspective

The US is Europe's largest trading and investment partner and both sides benefit enormously from the partnership and the relatively free exchange of goods, people, services and data. In 2013 the two blocks traded goods worth more than €484 billion and services worth more than €300 billion. The investment partnership is even more impressive. By the end of 2013 the US held €1,534 billion of EU's inward investment stock, equalling 39%; the EU held slightly more investment stock in the US with €1,655 billion, equalling 37% of the EU's total outward investment stock[2]. Approximately 15 million jobs are linked to the transatlantic economy[3].

EU's main trading partners. Source: Eurostat (2013)

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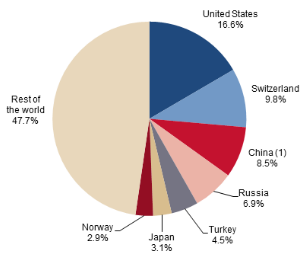

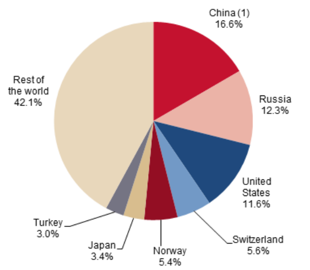

A trans-Atlantic Trade Deal (TTIP) would help to deepen this economic partnership and is seen as one of the few ways to boost growth in the EU. Moreover, the US is strengthening its ties with the Pacific region through the Trans-Pacific Partnership agreement (TPP). The US is currently negotiating with 11 countries in the Asia-Pacific region, and this could run the risk of the EU becoming side-lined from the main trading streams if there is no closer integration with the US.

There have always been critical voices, and despite – or because of – the similar culture, different approaches on certain issues remain, such as attitudes towards central Government, which seem strange to many Europeans. However, so far this was mainly background noise without impacting political decisions. Recently this has changed. In several important legislative dossiers, such as data protection and TTIP, anti-American and anti-corporate rhetoric has entered the debate and there are concerns that the business climate for US companies could be made more difficult as a result. In addition, some Eurosceptic and populist parties, such as the French Front National, came out strengthened after the European elections, and bashing of US corporations belongs to their standard repertoire.

The Bush years combined with the financial crisis fuelled opposition to American-style capitalism in Europe. With Barack Obama, it seemed that trans-Atlantic relations would improve as most Europeans connected much better than with George W. Bush and multilateral cooperation saw a revival with the strengthened G20 and G8 fora. In recent years, however, a number of developments have reversed this encouraging development.

The Snowden Revelations

The revelations about the National Security Agency's (NSA) surveillance programme increased the mistrust towards the US. In a survey carried out by FTI Consulting just after the Snowden revelations among 1,500 Europeans in six countries, 76% of respondents in the EU thought that the data protection issue would impact the EU-US relationship.[4] In the eyes of many Europeans Edward Snowden is a hero, while US politicians call him a traitor[5]. In reaction to the Snowden revelations, the European Parliament adopted two non-binding resolutions condemning the NSA surveillance activity and

[1] EEAS – EU-US Relations: http://eeas.europa.eu/us/index_en.htm
[2] DG Trade: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113465.pdf
[3] DG Trade: http://trade.ec.europa.eu/doclib/press/index.cfm?id=757

[4] FTI Consulting: Data Privacy in the EU and the US
[5] NBC News: (John) Kerry: Snowden a "Coward" and "Traitor"

called for far reaching reactions by the EU and its Member States. These would include developing localized EU based cloud services and suspending the Safe Harbour agreement that provides a streamlined procedure for the transfer and processing of personal data by US companies if they adhered to certain privacy principles. Without the Safe Harbour framework and with the measures proposed in the new EU data protection rules, the position of US firms in the EU would be seriously threatened.

Fear of the Big

Scepticism of US multinational companies has always existed, but following the Snowden revelations, there has also been uneasiness about the strength of some US companies in the internet market. In a resolution voted in November 2014, MEPs called for considering the unbundling of search engines from other commercial services as one potential long-term means of achieving the digital single market in the EU. This has widely been interpreted as a call to break up Google and to apply political pressure on Margrethe Vestager, the new Competition Commissioner, who took over the Google investigation from her predecessor, Joaquin Almunia. Nevertheless, Vestager has so far resisted political pressure for a swift conclusion to the case, stating that many of the concerns voiced about Google could not be addressed in the investigation and that she would limit herself to identifying competition concerns.[6]

The fear of big US companies was also present in the 90s, with the lengthy competition investigation of Microsoft, and many in the EU are today calling for the creation of European companies capable of competing with the US businesses.

Tax avoidance

Tax avoidance has been a hot topic at the end of 2014, and is likely to remain at the forefront in 2015 following headlines in the EU media. In particular the cases of Apple, Starbucks and Amazon that paid less than 5% taxes, caused a strong reaction by MEPs urging the Commission to bring to an end tax avoidance schemes. In the future it will not be enough anymore to follow the text of the law but also the spirit of the law itself. Now the Commission's DG Competition investigates whether these tax avoidance schemes constitute state aid. The media have focused very much on tax avoidance strategies of US companies and these could come under special scrutiny.

Under the TTIP lens

The Transatlantic Trade and Investment Partnership (TTIP) is a huge opportunity for both Europe and the US. It would not only lead to an almost total elimination of tariffs but also create the framework for regulatory cooperation, which could potentially lift heavy burdens for business on both sides of the Atlantic and strengthen the partners' position in standard setting globally. As TTIP reaches into many areas, it attracts much interest from all parts of society. However, it is primarily the opponents of the pact who are dominating the headlines and have most influence on the public perceptions. For instance, a coordinated anti-TTIP petition has recently attracted more than one million signatures online and the consultation on the Investor State Dispute Settlement (ISDS) attracted around 150 000, mostly critical, responses. Normally, these kinds of consultations do not attract more than 1000 replies.

The TTIP debate amplifies voices critical of US corporations, and NGOs call TTIP a "Trojan Horse" for corporate interests and the proposed ISDS a "Selling out Europe to US Corporate Plunder". The US is depicted as dominated by corporate interests ignoring environmental and food safety standards. The chlorine chicken, genetically modified food (GMO), and corporate lobbyists are the symbols of this negative perception. As long as the talks continue the TTIP opponents will be going on to purport anti-American perceptions.

Views from Germany

Fighting for TTIP in Germany may be a noble cause – but it certainly will not be an easy one. The project comes at a time when German/US relations are arguably at their lowest point in modern history. Anti-Americanism, always a trade-mark of the German left, has clearly expanded towards the centre of society in recent years and, since the years of George W. Bush, has taken deep roots even among middle-class Germans with moderately conservative views: your classic voter of Angela Merkel´s Christian Democrats, or CDU. Add to that the Snowden revelations (met in Germany with utter shock and deep resentment, even among the most ardent Atlanticists), and you have a recipe for deeply-set disappointment and distrust.

Little wonder that in that mind-set, German consumers are only too willing to fall into the scare trap that a united front of NGOs, leftist opposition parties, consumer protection groups and trade unions have set up. Together, these groups have managed to dominate the headlines with vivid warnings of lowered, "Americanized" standards of food security in German supermarket shelves. And things did not improve when mass circulation daily BILD newspaper warned its millions of readers that neither German beer nor German bratwurst will be safe if TTIP comes into force.

So it is an uphill struggle that German industry and Chancellor Angela Merkel, both fully committed to bringing TTIP to success, will have to fight. For the Chancellor, TTIP is a strategic issue: she seems ready to position the CDU, even against her social democratic partners in government, the SPD, who are much more sceptical despite their leadership´s attempts to calm the waters. But Merkel will first have to work hard to convince her own constituents of TTIP´s benefits, and for now, the task seems overwhelming. Add the fact that, meanwhile, Germany´s labour market is alive and kicking, with employment figures reaching record levels month by month, and you realize that presenting TTIP as a job machine will not get you far: In Germany, it is the consumer scare, stupid (and you will have to work hard at convincing them that no-one wants to poison them, standards will remain as they are, and TTIP will not bring down the country but just the prices)!

Views from France

France has always had an ambivalent relationship with the US. Even if ties on the battlefield have been strong ("our oldest allies" stated John Kerry, whilst listing the view countries likely to participate in an intervention against Damascus), the opposite is also true when it comes to business.

US investors certainly do not feel welcomed in France as a survey by the American Chamber of Commerce in France shows: only 12% have a positive perception of France, compared to other investment destinations. Considering that this figure was 56% in 2011, the collapse of France's image is spectacular. Finally, no more than 2% of US business managers based in France would recommend to their American friends to invest in France. However, Americans are still very present in France with 4,000 businesses employing 440,000 people, as Les Echos pointed out on October 24th, showing that the French market still draws great interest.

The main pitfalls for American businesses in France revolve around the reform of the labor market, taxation issues and excessive bureaucracy. Regarding the labor market, cases such as Goodyear's clash with workers, involving boss-napping and government intervention in strategic businesses is weighing heavily in minds already unnerved by repeated strikes. In recent years, regulatory uncertainty has further shaken US investors. In particularly new technology sectors

[6] Commission statement/14/1646, 11 November 2014

that threaten to disrupt established industries such as Uber with taxis, AirBnB and HomeAway with hoteliers and PayPal with French banks, face fierce opposition from French actors.

Political intervention caused headaches for GE in its acquisition of Alstom's power and grid business. The Alstom board had unanimously accepted the GE offer before the French Government put many obstacles in GE's way. The Government encouraged Siemens to bid, insisted on various assurances to guarantee employment and took a 20% share in the company. However, GE also proved how transparent communication, close interaction with the Government and experience with French politics can lead to success.

Despite these difficulties, there remains a desire to invest in France. American businesses must now adapt to an ever-changing environment in order to penetrate this sensitive marketplace and understand how it operates. Without doing so, competitors, regulators, the media and the government will not fail to be hostile in their reactions.

Views from the UK

Floating between the two blocks, the UK remains the biggest proponent of the US amongst western EU states. The visit of UK Prime Minister Cameron with President Obama in the wake of the Paris attacks and renewed cyber-attacks on US assets underlines the intimacy of the relationship over security and anti-terrorism; and over geo-political positions such as adopting a tough line towards Moscow and a strong NATO.

Both countries also have the same views on a large variety of economic issues. Both advocate for lowering trade barriers – read TTIP – and share a market-friendly approach to legislating and a strong belief in relatively marginal state interventionism. This proximity stands in stark contrasts to a number of EU member states which have seen rising anti-American sentiment in the wake of the Iraq war, have a traditionally deep-rooted distrust of free markets and globalisation and a strong history of a strong, centralised state.

Despite this close relationship the UK has seen some grass-root opposition to the US-UK alliance which is perceived by some as a being excessively one-sided. The opposition peeked in 2003 when around 1 million citizens took to the streets of London to oppose the war in Iraq in the largest political demonstration in the city's history.

The Deepwater Horizon oil spill and the unprecedented pressure put on the UK's leading oil & gas major by US policymakers and courts has raised the question whether the treatment was unfairly skewed and would have been softer, had it been a US giant. The financial crisis, which dented trust in free markets in the UK and created considerable appetite for increased state oversight of the private sector set the scene for new controversy around the tax status of leading companies – many of them American. The optimisation of tax loopholes, particularly by US-based internet giants caused a public backlash which paved the way for George Osborne's announcement of a new Diverted Profits Tax (swiftly baptised Google tax). Similarly, fears over the impact of TTIP on public services such as the NHS and over the controversial ISDS are seeping in the public debate ahead of the May 2015 general election.

Rifts between US companies and the UK government jeopardising bilateral relations are hard to imagine. The UK will remain open to all US investments and both countries will grow closer in coming years over common security issues. Individual economic interests might be victims of real or perceived "national" preference on both sides of the Atlantic but the "special relationship" will continue, even it is has to be despite public sentiment rather than because of it.

Conclusions

In spite of the critical voices, Europe will continue to embrace private US investment. The barriers for investing in the EU are low and do not discriminate against US companies. The situation for US business can become more challenging when confronted with politically sensitive issues such as data privacy, GMOs or trade negotiations. In these cases voices critical of US companies appear in the media also attacking companies directly.

To avoid this kind of reporting from impacting business and political decisions, business should inform consumers and policy makers pro-actively and transparently before anti-American myths dominate the public space. The public debate on GMO and TTIP illustrates how difficult it is to regain public trust, once the wrong perceptions are in people's minds. In order to ensure that Europe remains a region that is open to new technologies, often coming from the US, business has to gain the trust on these issues, before the negative headlines impress the consumers.

Arne Koeppel
Brussels Head of Research, Strategic Communications

FTI Consulting
23, Avenue Marnix
1000 Brussels
+32 02 2890939
arne.koeppel@fticonsulting.com

Martin Kothé
Managing Director

FTI Consulting
Luisenstrasse 45
Berlin, 10117
+49 30 288744 220
martin.kothe@fticonsulting.com

Lionel Benatia
Senior Director

FTI Consulting
5, Rue Scribe
Paris, 75009
+33 1 47 03 68 15
lionel.benatia@fticonsulting.com

Alexander Holroyd
Director

FTI Consulting
200 Aldersgate
London, EC1A 4HD
+44 203 727 1688
alexander.holroyd@fticonsulting.com

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