

**Testimony of Ambassador Michael Froman  
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**Before the  
United States House of Representative Committee on Foreign Affairs  
Subcommittee on Europe, Eurasia, Energy, and the Environment**

**The Importance of Transatlantic Cooperation During the COVID-19 Pandemic**

July 14, 2020

Good morning Chairman Keating, Ranking Member Kinzinger, and members of the Subcommittee. My name is Michael Froman, and I am the Vice Chairman and President of Strategic Growth at Mastercard. I also served as the U.S. Trade Representative and as Assistant to the President and Deputy National Security Advisor for International Economic Affairs during the Obama Administration.

It is my pleasure to appear before you this afternoon to provide Mastercard's perspective on the importance of transatlantic cooperation during the COVID-19 pandemic. *First*, I will highlight the importance of transatlantic cooperation and public-private partnerships in addressing elements of the pandemic itself. *Second*, I will discuss the potential for U.S. cooperation with the European Union and the United Kingdom to address common challenges facing global trade, including the potential contribution of the U.S.-UK FTA currently being negotiated. *Finally*, I will provide a perspective on the thoughtful use of sanctions and the risk of unintended consequences both to the prospects of transatlantic cooperation and to the central role of the dollar and related institutions.

## **Background on Mastercard**

Mastercard is a global technology company in the global payments business. We connect consumers, financial institutions, merchants, governments, digital partners, and other organizations worldwide, and enable them to use a trusted network to engage in commerce, make electronic forms of payment, safely and securely, and engage in a wide range of transactions in the digital economy. We are the only global, multi-rail network. That allows us to offer customers choice among credit, debit, prepaid and automated clearing house (“ACH”) transactions, including real-time account to account transactions, for domestic and cross-border payments. We also provide integrated value-added offerings such as cyber and intelligence products, information and analytics services, consulting, loyalty and reward programs and processing, as well as solutions for digital identity to ensure that people are who say they are online.

Mastercard processes more than 87 billion payments each year on more than 2.6 billion physical and virtual cards at more than 60 million acceptance locations worldwide. Mastercard serves consumers and businesses in more than 150 currencies and in more than 200 countries and territories, making us the most widely accepted payment brand in the world.

The COVID-19 crisis has underscored how vulnerable individuals and small businesses are to an economic shock. As part of our ongoing commitment to inclusive growth, Mastercard has joined the crucial effort to combat COVID-19 and its impact by leveraging our technology, capabilities and reach. With Mastercard’s pulse on global economic activity, we have helped governments all over the world better understand the economic impact of this crisis by sector and geography. We have collaborated with city, state and national governments, as well as philanthropic and private sector partners, to deliver financial support to individuals and small

businesses all over the world. Here in the United States, we have worked with partners to enable the delivery of Economic Impact Payments to millions of Americans who hold reloadable prepaid cards, including those who participate in the US Treasury Department's Direct Express® program, which helps people who are unbanked and underbanked receive federal benefits, such as Social Security. Mastercard's initiative helps vulnerable communities that are unbanked or underbanked receive funds instantly, rather than incur the costs and risks of cashing or depositing paper checks.

We see in real-time the challenges facing individuals and small businesses. That is why we've committed \$250 million in financial support, technology, products and services over the next five years to support the vitality of small businesses and the financial security of their workers. That's why we've committed 10's of millions of dollars to emergency grants to address immediate needs in communities in which we operate and to rebuild the economy better in light of this crisis.

This is part of a long-term approach Mastercard has had to promoting commercially sustainable social impact. We started with a focus on financial inclusion and, over the last five years, brought more than 500 million unbanked individuals into the financial system. In the context of COVID-19, when it became clear just how important it was for individuals and small businesses to be connected to the digital economy – to receive benefits, to serve customers, to go online and conduct e-commerce – we doubled down and committed to bring 1 billion individuals and 50 million micro and small businesses into the digital economy, and to reach 25 million women-owned and run businesses. To do so, we will be expanding on our partnerships with a wide range of governments, businesses and NGO's. We do this not just because it is the right

thing to do, but because we thrive in a thriving economy and, in our view, the only growth that is truly sustainable is inclusive growth.

This type of public-private partnership is critical to addressing major economic and social challenges. There is not enough government finance or philanthropy – as important as both are – to successfully address the global challenges we face without the resources, ingenuity and innovation of the private sector. By way of example, as a trust network, Mastercard is developing a HealthPass solution, drawing on our digital identity capabilities, which would allow individuals to certify that they have recently tested negative, developed an immunity or been vaccinated. Working with governments, business, such as airlines, and partners in the health sector, this would allow individuals who are considered safe to resume activities such as education, work and travel. Recognizing that there are a number of sensitivities and complexities in this area, we are committed to delivering solutions that also enhance consumer privacy, require explicit consumer consent, and deliver strong cybersecurity protections. Our HealthPass solution is just one way in which a private sector party can bring its assets to the table to help governments address major public challenges. We welcome your partnership, guidance, and participation on this journey.

And our commitment does not stop with leveraging only our own technologies and solutions. We have committed up to \$25 million and worked with the Gates Foundation and Wellcome in the UK to establish the COVID-19 Therapeutics Accelerator to expedite the discovery, development, manufacture and distribution of treatments and diagnostics to address COVID worldwide. That initiative has since attracted the participation of the UK Government, U.S. philanthropies and others to mobilize more than \$300 million to be deployed against this goal. Why are we involved? For a number of years, we have been deeply involved in deploying

our technology to address humanitarian and development needs, including making our network available to global health organizations to facilitate their work. But more broadly, our view is that this is a health and an economic crisis, and that as a global company, it is in our interest that, even as work proceeds toward a vaccine, we should do everything we can to find treatments and tests that can help people get back to work safely and securely.

This underscores the importance of both transatlantic cooperation and public-private partnerships. In the COVID-19 era, we need to work together, as we are with a number of U.S., UK and European government, business and philanthropic partners, to expedite an effective health and economic response to this pandemic. We are less likely to be successful doing this alone than we are by pooling the resources and scientific talent from around the world. And we need to draw upon the strengths and assets of both the public and private sectors to address these challenges.

### **Value of Transatlantic Cooperation**

Our enduring alliance with Europe is one of tremendous importance to the United States and our economy. Together, we have built an integrated, rules-based global economy that has resulted in decades of unprecedented and peaceful growth. We have built institutions that have brought stability to commerce; opened markets for U.S. farmers, ranchers and workers in our manufacturing and service industries; and raised standards around the world. That system, however, has come under stress in recent years. These challenges were present before COVID-19, but the pandemic has shone a bright light on the need to work together to reform elements of that system and to address the major challenges to it.

## *1. China*

Let me start with China. The United States and Europe share a common objective of determining how best to integrate an economy as large and important as China's into the rules-based system in a manner that maintains and strengthens that system. That requires that we promote consistent and enforceable global rules pertaining to policies that mandate or encourage non-commercial technology transfers; address the impact of SOE's and the use of state subsidies; protect intellectual property rights; and ensure fair market access. While there might be differences between the U.S. and Europe on the tactics that we would use to make progress on these matters, we have a strong common interest in overcoming those differences to bring as coherent a collective approach as possible to this challenge.

## *2. Global Technology Standards*

A second area where transatlantic cooperation is critical is the maintenance and development of global standards, particularly with regard to new technology. The world has spent the better part of a century designing standards to facilitate global commerce: think the standard sizes of shipping container or the interoperability of the telecommunications sector. Today, we are facing a potential fracturing of global standards along national lines. Faced with new challenges, national governments too often jump to the conclusion that they need national solutions when there could be solutions that protect key priorities, such as privacy, without sacrificing the benefits of global standards, including interoperability. Adopting localization requirements that prohibit the transfer of data across borders, imposing technical standards that preclude competition, and promoting local monopolies have an adverse impact on consumer

welfare and business innovation. The benefits of global trade cannot be fully enjoyed in an archipelago world where every country operates as an island.

Interoperability does not require sacrificing privacy, national security, consumer protection or economic inclusion. Arguments for global standards that do not allow for legitimate regulation are unsound. Sound regulations must be part of any work program, but they should not be a pretense for unjustified protectionism. The U.S., UK and EU have an opportunity to explore where national or regional regulatory regimes can be compatible with each other and to use that as a basis for promoting compatible regulations more broadly.

Let me provide an example: privacy is and should be a top priority for regulation, and there is a range of ways to address legitimate privacy concerns without sacrificing the benefits of the increasingly digital economy. Through our global network, we at Mastercard are able to monitor transactions all over the world and, using artificial intelligence, and spot patterns of cyberattacks and other anomalies based on the flow of data across borders. That data contains no personal identifying information; it is aggregated and anonymized. And it has allowed us to help governments, financial institutions, merchants and individuals stop almost \$55 billion in losses due to cybertheft over the past four years. If countries insist on national clouds, localized data and undue restrictions on cross-border data flows, it could prevent us from spotting those patterns and defeating cybercriminals. There are plenty of ways to protect the legitimate privacy interests of individuals without sacrificing the benefits of the digital economy.

### ***3. Strengthening, Updating and Reforming the Global Trading System***

The global trading system is under stress for a number of reasons, one of which is that it has not kept pace with the evolution of the global economy. Take services, for example:

financial services, distribution services, computer services, telecommunications services, express delivery services, among others. The World Trade Organization (WTO) reports that trade in services accounts for about two-thirds of global value-added trade. The services sector is growing faster than the manufacturing sector, provides widespread economic opportunity, including for developing countries, and promotes cross-border investment and trade. It is an engine of growth, but growth is difficult when regulatory systems are fragmented. No economic sector could benefit more from rules and institutions that facilitate trade than the services sector, yet it is this sector where trade rules are weakest. Most countries have undertaken few services commitments in the WTO and in their free trade agreements. As strong services economies, the U.S., UK and EU have a common interest in doing better.

With respect to WTO reform, there are a number of areas for potential transatlantic cooperation. The United States, UK and EU generally agree that the WTO must develop objective criteria for determining whether a country is developed or developing and, therefore, what level of obligation it is held to. The United States, UK and EU also agree on the need to strengthen existing WTO rules on industrial subsidies. We need to ensure that WTO Members promptly and comprehensively notify their subsidies to the WTO, and we need rules to address subsidies granted through state-owned enterprises. Finally, the United States, UK and the EU should be able to work together to develop and implement reforms that would ensure that the WTO Appellate Body functions according to its mandate.

Part of updating the global trading system must be making it relevant to the emergent issues of the global economy. The Internet was not a major factor during the Uruguay Round negotiations which established the WTO. The digital economy raises an array of new issues, from privacy and data flows, which I have already discussed, to e-commerce and taxes. There is



great potential for cooperation among the U.S., UK and EU in furthering the negotiation of an e-commerce agreement. On the other hand, unilateral imposition of taxes on digital services by one or another European entity is likely to be a major obstacle to transatlantic cooperation more generally.

Let me say one word about the ongoing U.S.-UK FTA negotiations. As the first and fifth biggest global economies, the U.S. economic relationship with the UK is one of the largest in the world. A comprehensive U.S.-UK FTA would provide the United States with an opportunity to develop new approaches to trade, including with respect to digital trade, financial services and emerging technologies, with a like-minded ally who plays a pivotal role in the global economy. Of course, the capacity of the UK to reach an ambitious and high standard agreement with the U.S. will turn, in part, on how it resolves certain fundamental issues in its Brexit negotiations with the EU, including the degree to which it plans to align its regulations with Brussels going forward versus the degree of discretion it intends to exercise to define new standards with the U.S. and other trading partners.

### **Unintended Consequences of Weaponizing Finance**

Finally, I turn now to an issue that impacts transatlantic cooperation and is within the control of the United States: sanctions. There are certainly circumstances that warrant the imposition of economic sanctions. Sanctions are one of several tools in the international economic and national security toolbox. That said, the use of unilateral sanctions—made possible by the primacy of the U.S. dollar—is not free of cost. Weaponizing finance through the imposition of unilateral sanctions runs the risk of incentivizing others -- both U.S. allies and

others -- to develop alternative mechanisms for conducting international trade and clearing transactions. Whether it is promoting alternative reserve currencies, developing central bank digital currencies or creating national or regional payment networks – all of which we see among our European partners -- such sanctions have the potential of creating unintended, enduring and broad-ranging consequences for the centrality of U.S. dollar-based institutions and payment networks long after the specific sanctions against specific countries have been lifted. For these reasons, whenever sanctions are on the table, the U.S. government should consider a tailored approach, working wherever possible with allies like the UK and EU, which would strengthen the action while minimizing the risk of unintended consequences to the role of the dollar, dollar-based institutions and U.S. payment networks.

We appreciate the opportunity to share our views on these issues with the Subcommittee. Thank you for your time.