

Will the Transatlantic Trade and Investment Partnership be a game-changer?

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Abstract

In February 2013, US President Barack Obama, European Council President Herman Van Rompuy and President of the European Commission José Manuel Barroso announced the decision to go for an ambitious and comprehensive trade and investment agreement between the United States and the European Union. To be called the Transatlantic Trade and Investment Partnership (TTIP), this agreement would lead to a new stage in the transatlantic relationship and be a much needed boost to the lacklustre economic recovery so far. Some analysts have even argued that TTIP would be a “game changer” – besides the economic gains, it would serve a bigger strategic purpose of promoting EU-US common objective to set higher standards of trade liberalisation, and thereby level the playing field in China and other key emerging markets.

This policy brief examines the reasons behind the current push towards TTIP and the possible contents of such an agreement. It also discusses the possible obstacles to the realisation of TTIP, and at the same time, looks into what a successful conclusion of TTIP would mean for Asia and beyond.

Introduction

On 13 February 2013, EU and US leaders gave a new momentum to the transatlantic relationship by announcing their decision to go for an ambitious EU-US free-trade agreement, the **Transatlantic Trade and Investment Partnership (TTIP)**.¹

The EU and the US are the world’s largest economies and each others’ largest trading partners. An EU-US trade agreement would cover one third of global trade with the trade, investment and commerce that pass between them amounting to US\$5 trillion annually.² A deep and ambitious deal would not only lead to a new stage in the transatlantic relationship but its

effects would also be felt beyond the US and the EU. Some even argue that it could be a “game-changer”³ as the TTIP is not just about economic gains, but could serve a bigger strategic purpose of promoting EU-US common objective to set higher standards of trade liberalisation and thereby level the playing field in China and other key emerging markets.

Why an EU-US Transatlantic Trade and Investment Partnership?

The idea of creating a Transatlantic Free Trade Area (TAFTA) first surfaced with the launch of the New Transatlantic Agenda in 1995 between the two partners. While the New Transatlantic Agenda heralded an elaborate and

¹ Statement from US President Barack Obama, European Council President Herman Van Rompuy and European Commission President José Manuel Barroso (MEMO/13/94), http://europa.eu/rapid/press-release_MEMO-13-95_en.htm

² Barker, Tyson, “Why the latest US-EU Trade Talks are likely to succeed”, 26 February 2013.

³ Barroso, J.M., “Statement by President Barroso on the Transatlantic Trade and Investment Partnership”, 13 february 2013, http://europa.eu/rapid/press-release_SPEECH-13-121_en.htm

comprehensive framework of cooperation between the EU and the US, the idea of TAFTA did not gain enough traction. Later in 2007, the Bush administration sought to revive the issue of transatlantic economic cooperation, but the effort quickly became bogged down because of differences in regulatory approaches.

After these failed attempts in the past to enhance economic integration between the EU and the US, several factors may explain why the TTIP is now again a priority in both the European and American trade agendas.

The difficulties of the World Trade Organization (WTO) Doha Round of global trade negotiations launched in 2001 led both the US and the EU to look for other means to liberalise trade. Bilateral FTAs may not only be faster to conclude than multilateral deals but they may also tackle issues not yet ready for multilateral discussions. Both the EU and the US have therefore put the conclusion of so-called “new generation of 21st Century FTAs” at the centre of their new trade agendas focusing on fast-growing economies, particularly those in Asia. The US have in particular, launched the so-called Trans Pacific Partnership (TPP) when it entered into negotiations with ten other countries across the Pacific for a comprehensive, high quality trade agreement. On its side, the EU has entered into trade talks with several Asian countries, the most recent being the launch of FTA negotiations with Japan on 25 March 2013.⁴ The failure of the Doha Round, and the development of FTAs networks provide the

impetus towards a high quality FTA between the EU and the US.

Second, both the US and the EU are looking for ways to revive their stagnating economies severely affected by the financial and economic crisis. Many analysts see the TTIP as one of the ways out of the economic woes, hoping that further trade and investment liberalisation will stimulate economic growth and create more jobs. According to EU projections, the European and the American GDP would rise by as much as 0.5% annually in a short-term perspective and 1% in the longer run and create up to 2 million new jobs.⁵ The immediate financial gains of TTIP would be 119 billion euros a year for the EU and 95 billion euros for the US.

While tariff on goods traded between the US and the EU is already quite low with an average value of 4%, a further tariff elimination may still lead to significant savings as EU-US trade accounts for almost a third of world trade and constitutes the largest trade relationship in the world. The core benefit of an ambitious agreement would be the elimination of regulatory barriers that impede transatlantic trade.

Finally, as US President Obama said in his State of the Union address, the TTIP could “level the playing field in the growing markets of Asia”.⁶ While further progress in the Doha round seems out of reach, an ambitious EU-US agreement in fields such as regulatory barriers, competition policy, localisation requirements, raw materials and energy also would provide impetus to

⁴ The TPP would gather 11 countries across the Pacific (Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, United States, Singapore and Vietnam). On the EU side, trade talks have been launched with India, Malaysia, Vietnam and Thailand and recently Japan. The EU-South Korea is in force since July 2011 and the EU and Singapore concluded the FTA negotiations in January 2013.

⁵ European Commission, “Transatlantic trade and Investment partnership”, Memo of 13 February 2013, http://europa.eu/rapid/press-release_MEMO-13-95_en.htm

⁶ US President Barack Obama’s State of the Union Address. 13 February 2013. <http://www.bbc.co.uk/news/world-us-canada-21437788>

address these issues with emerging trade partners and set higher standards of trade liberalisation globally.

In short, TTIP would reinvigorate the transatlantic partnership and have both geopolitical and geo-economic implications.

What should be in the contents of a Transatlantic Trade and Investment Partnership?

Over a year ago, a High Level Working Group (HLWG) on Jobs and Growth, led by US Trade Representative Ron Kirk and EU Trade Commissioner Karel De Gucht reflected on what should be the content of an EU-US trade agreement. It concluded that the best option would be a comprehensive agreement that would address a broad range of bilateral trade and investment issues, including regulatory issues.⁷ EU and US leaders endorsed the conclusion of the HLWG and decided to go for a comprehensive agreement that would cover three broad areas:

a) Market Access:

Both partners aim at getting as close as possible to a removal of all duties on trade in all goods with a special treatment for more sensitive products, which may include textiles and agriculture. The market access should also aim at a greater opening for services sectors including in the transport area. The issue of access to mutual government procurement opportunities on the basis of national treatment would be put on the

negotiation table. Finally, the TTIP would also contain an agreement on investment.

b) Regulatory Issues and Non-Tariff Barriers:

Regulatory convergence has been identified as the area with the greatest potential for both economies in view of the many regulatory differences between the US and the EU and their adverse impact on transatlantic trade. The aim of the agreement would be to align as far as possible or mutually accept the standard and procedures through the conclusion of an ambitious agreement on sanitary and phytosanitary as well as technical barriers to trade. The US and the EU also want to work on regulatory compatibility in specific sectors such as chemical, automotive, pharmaceuticals and other health sectors such as medical appliances.

As underlined by the HLWG this would require both parties “to pursue new and innovative approaches to reduce the adverse impact on trade and investment non-tariff barriers”.⁸ The agreement may take the form of a so-called “living agreement” allowing for “progressively greater regulatory convergence over time against defined targets and deadlines”.⁹

The aim of regulatory convergence would be to create “a more integrated transatlantic marketplace, while respecting each side's right to regulate in a way that ensures the protection of health, safety and the environment at a level it considers appropriate”.¹⁰

⁷ HLWG final report, 11 February 2013, http://trade.ec.europa.eu/doclib/docs/2013/february/trade_doc_150519.pdf

⁸ HLWG final report, 11 February 2013
⁹ Commission memo, Transatlantic trade and Investment partnership”, Memo of 13 February 2013, http://europa.eu/rapid/press-release_MEMO-13-95_en.htm

¹⁰ Commission press release of 12 March 2013, “European Commission Fires Starting Gun for EU-US Trade Talks”,

c) Contributing to Global Rules, Principles and Standards for Trade and Cooperation to Address New Trade Challenges:

The TTIP should also aim at developing rules that would not only be relevant for transatlantic relations, but also contribute to the development of global rules and the progressive strengthening of a multilateral trade system.¹¹ According to the HLWG, these rules and principles should address issues such as Intellectual Property Rights (IPRs), environment and labour standards as well as other questions that may arise as the consequence of the emergence of new patterns of production. In particular, the transatlantic partners would address the issue of the privileges granted by some countries to state-owned enterprises (referred to as “state capitalism”) or the issue of exports restrictions on raw material.

What could be the obstacles to the conclusion of the Transatlantic Trade and Investment Partnership agreement?

On both sides of the Atlantic, politicians, businesses and citizens have generally welcomed the prospect of a TTIP. However some questions remain. If both parties are aiming at a comprehensive and ambitious agreement with a high degree of trade liberalisation and covering non-tariff barriers and regulatory issues, the negotiations may not be all that easy and a number of contentious points would need to be tackled.

Agriculture remains probably one of the most contentious issues in the EU-US trade relationship and difficult negotiations over the

Atlantic are expected in that area. Agricultural lobbies from both sides could still well dislodge any deals.

The potential for disagreement in sectors such as financial services should not be underestimated. As the EU and US do not always have same views on reinforcing the regulations and supervision of the financial sector, negotiations would not be smooth-sailing.

On the American side, the lifting of restrictions on investment and bidding for public procurements contracts may also prove difficult as the EU market is more open to US firms than vice versa.

Other sectors are also extremely sensitive as the issue of the so-called “cultural exception” in the audio-visual sector, which is very dear to the French. The “cultural exception” aims to ensure culture is treated differently from other commercial products, allowing countries to introduce quotas for local music and film on national TV and radio stations and subsidise their industry. The US considers the “cultural exception” to be a form of protectionism. The French President, speaking at the conclusion of a two-day European summit on 15 March, already made clear that the “cultural exception” was a non-negotiable area.¹² The Commission did not formally exclude the audio-visual sector from the draft negotiating mandate it agreed on 12 March 2013, but the EU Trade Commissioner De Gucht emphasised that the EU-US trade agreement “will not force a change of current practices in the member states”.¹³

¹² Euractiv, “France draws red lines for EU-US free trade negotiations”, 20 March 2013, <http://www.euractiv.com/global-europe/france-draws-red-lines-eu-us-fre-news-518616>

¹³ De Gucht, “European Commissioner for Trade Karel De Gucht: A negotiating mandate for a trade and investment agreement with the United States”, 12

<http://trade.ec.europa.eu/doclib/press/index.cfm?id=877>

¹¹ HLWG report, 11 February 2013

Reducing regulatory divergences, which should be at the core of the negotiation agenda, may also prove difficult as these differences often reflect cultural differences on issues such as food safety, animal and plant health as well as on intellectual property, data protection and citizens' right to privacy and the protection of geographical indications. Europeans are, for example, expecting to take a tough stance on food safety standards as illustrated by recent of EU leaders' comments¹⁴ and issues such as GMOs or growth hormones in beef will be contentious.

Both sides of the Atlantic acknowledge these divergences, but also argue that even if Americans and Europeans follow different approaches, they both share the same objective which is to have a high level of protection for consumers and the environment.

What could be the impact of an ambitious Transatlantic Trade and Investment Partnership?

If the TTIP may have positive consequences for both the European and American economies, it may also have an impact on the multilateral trade system as well as on other trade partners in particular in Asia.

Conceived as a response to the stalling of the Doha Development Round negotiations, the issue is often raised as to whether the TTIP would further undermine trade multilateralism and the existence of a level-playing field in trade globally.

March 2013, http://europa.eu/rapid/press-release_MEMO-13-212_en.htm

¹⁴ Euractiv, France draws red lines for EU-US free trade negotiations, 20 March 2013, <http://www.euractiv.com/global-europe/france-draws-red-lines-eu-us-free-news-518616>

Some argue, in particular, that with the negotiations of an increasing number of trade agreements over the world, multilateral rules risk losing their relevance and that "the TTIP is the final nail in the coffin of the old multilateral trading system".¹⁵ While multilateralism may be the best way to ensure that all nations get an equal chance on benefit from globalisation, the question is raised as to whether the negotiation of an ambitious trade deal between the US and the EU may signal that the two most powerful trade actors are giving up on the multilateral approach and their institutions.¹⁶

The proponents of the TTIP however argue that the rules to be negotiated in the TTIP would, in any event, go beyond what is negotiated at the WTO level and would therefore not go against the WTO. As the core agenda of the Doha Round of negotiations is blocked, the TTIP could even bring a new impetus to the multilateral trade system. The EU Trade Commissioner argued in particular, that "an EU-US partnership can act as a policy laboratory for the new trade"¹⁷ and may set some good standards for the global economy.

The jury may still be out as to whether the negotiations of an ambitious EU-US FTA would revive multilateral trade negotiations. In any event, it seems already clear that a TTIP and the creation of new trade rules may have an impact that go beyond the EU and the US and have consequences for other trade partners in the world.

¹⁵ Alden, E, "US-EU FTA talks chart a new path for global trade", 13 March 2013, <http://www.worldpoliticsreview.com/articles/12787/u-s-eu-fta-talks-chart-a-new-path-for-global-trade>

¹⁶ Fratscher, M., "the US-EU trade deal could be costly", 21 February 2013, Financial Times, FT.com

¹⁷ "US-EU trade deal is best stimulus: De Gucht", Channel News Asia, 3 March 2013, http://www.channelnewsasia.com/stories/afp_world_business/view/1257532/1/.html

Whether this move may “rebalance against China’s influence” is open to debate.¹⁸ In any event, China already made clear that “it would not remain idle and sit on the outside looking”.¹⁹ Reacting to the EU-US announcement, the Chinese government sent a proposal to the EU for a feasibility study for a China-EU FTA. It also recently revived free trade talks with Japan and Korea and indicated that it considered developing its FTAs network. It is also pushing forward for the Regional Comprehensive Economic Partnership, a free trade agreement involving the ten ASEAN countries and China, Japan, Korea, India, Australia and New Zealand.

and success of the TTIP will therefore depend on the level of political commitment on both sides of the Atlantic and the support political leaders obtain from their key constituencies and citizens across the Atlantic.

Conclusion

The decision by the EU and the US to enter into ambitious trade talks is an important event for global trade and economic landscape. Sharing “core interests” in the trade field, the EU and the US are determined to shape a “fair and free” trade level-playing field globally.

The launch of the actual negotiations could happen this summer following the finalisation of internal procedures in the EU and the US in June.²⁰ The European Commission has agreed on the negotiating guidelines and these have been submitted to the EU-27 leaders for approval, paving the way for talks to begin. The negotiations may however not be straightforward

¹⁸ Fensom, A., “EU-US Free Trade Agreement: End of the Asian Century?”, <http://thediplomat.com/pacific-money/2013/02/20/eu-us-free-trade-agreement-end-of-the-asian-century/>

¹⁹ “China is on outside looking in”, China daily, 22 March 2013, http://europe.chinadaily.com.cn/epaper/2013-03/22/content_16333323.htm

²⁰ The EU Council of Ministers is expected to agree on a negotiating mandate for the European Commission on 14 June 2013 and US internal procedures are also expected to be finalised around that time.

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