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The Transatlantic Trade and Investment Agreement (TTIP) – key issues and challenges ahead.

With the reelection of Barack Obama as the US president we witnessed the immediate rise of possible major breakthrough in transatlantic relations. Although the US-EU trade and investment agreement was mentioned from almost a decade, it has never materialized into something more serious than the US-EU working group aimed at removing obstacles for transatlantic business.

TTIP: from possibility to necessity

There are number of reasons why the project reinvigorated in such a dynamic way right now.

First, there is a raising awareness that the west must play together in a globalized world. Currently the only strong institutional tie between the EU and the US exists in the field of security (NATO). It is a surprising fact taking into account the developments in the world politics. However, the economic crisis of 2008+ hit the advanced western economies most. Furthermore, it was produced by them. Without their strong cooperation, they may soon be on the defensive side at the chessboard of world politics. Both the US and the EU democratic systems are increasingly getting internally more dysfunctional in tackling the challenge of globalization. One could never imagine, that the US shutdowns its own government and the public support for the US Congress is at its lowest ever point. One could also never assume that the most advanced project of EU integration – the Eurozone – can be ill-designed, which strongly contributed to the fact that the EU more than ever is becoming delegitimized in the eyes of its citizens. According to Pew Research Center surveys, on average only 1/3 of EU citizens think that European economic integration has strengthened their own country's economy, and positive views of the European Union are in the lowest point in most states.
No doubt, the west is in desperate need for new kick.

Second, the US and the EU are much more aware of what Dominique Moisi calls the "geopolitics of emotions". Across the continents, in Asia, Africa and Latin America, the resentments towards west are reoccurring in a visible way. This may be one of the reasons, why the so-called Doha trade agreement , which is the latest round of the WTO multilateral negotiations, will probably never succeed. The west is not capable of further multilateral push for trade and investment liberalization that would be against the rest of the world. Thus it changes its focus on the EU-US agreement assuming that the other players will have to adjust. In other words, it inscribes within trend towards regionalization of trade agreements. But the potential size of this trend is such, that in fact no other country will be able to omit the consequences if the two most developed economies find and agreement. It will introduce the standard for other players, and can even give a push to continue the WTO negotiations. On the other side there is also a risk, that it can kill the multilateral trade agreements, which are constantly being more regionalized since the start of the Doha round. But it seems that the EU and the US do not take into account this argument too seriously. They are clearly determined to make a great leap forward.

In general, the atmosphere surrounding the transatlantic agreement has definitely changed.

> If some time ago the transatlantic deal was too big to succeed, today it is rather too big to fail.

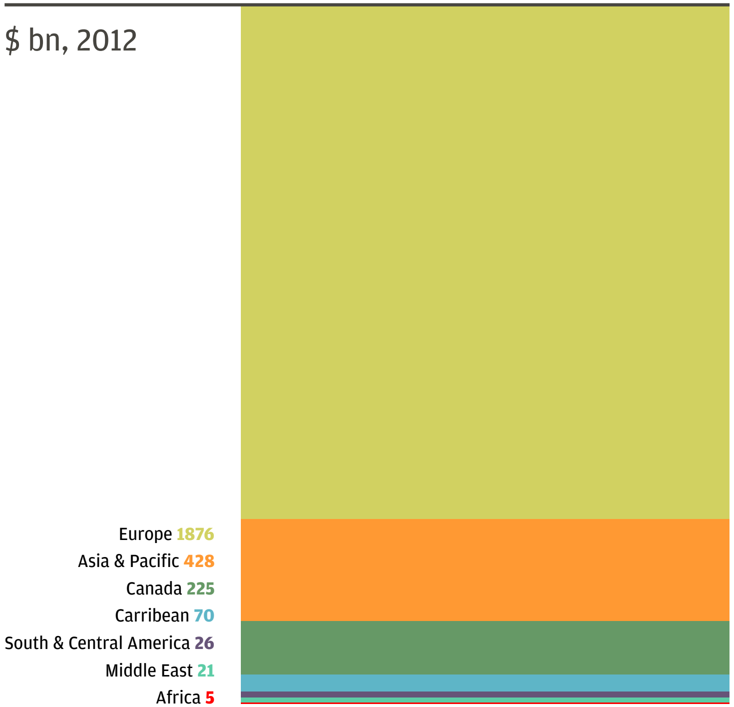
The big deal

The EU and the US account together for 45% of world GDP (33 trillion $ in market prices). It is worth to note that while the economic relations between the US and Asia/Pacific are mainly based on trade, the US-EU economic relations are primarily driven by investments. Despite Europe's sluggish economy, it is overwhelmingly the biggest investor in the US (see Graph 1).

An average citizen cannot even imagine how strong are the transatlantic economic ties. They are lasting even in the time of western economies crisis and simultaneous widely-advertised rise of BRIC (see Graph 2). US is the most profitable region for EU companies. The last year for US foreign affiliate income earned in Europe was a record high 226 billion $. The same highest level on record was noticed for European affiliate income, which amounted to 125 billion $[2].

Graph 1

Cumulative FDI in the US by investor[1].



Graph 2

US FDI Outflows to the BRICs vs. Europe, billions of $[3].

The TTIP can be the biggest bilateral trade deal ever negotiated. In its ambitious form it is calculated, that an average European household would gain an extra 545 Eur annually, and the EU's economy would gain additional 0,5% GDP growth. However, one has to remember that -as usual- the devil is in the details.

[1] Source: Organisation for International Investment 2013.

[2] Daniel Hamilton, Joseph Quinlan, The Transatlantic Economy 2013. Annual Survey of Jobs,Trade and Investment between the United States and Europe. Update third quarter 2013, SAIS Center for Transatlantic Relations, Washington DC 2013.

[3] Source: Bureau of Economic Analysis.

It's (almost) all about regulations

There is not much to be done when it comes to the level of trade tariffs as there are already very low, the biggest potential gains - up to 80% from the whole TTIP - may arise from non-tariff barriers reduction[4]. Although majority of trade between the EU and the US takes place in the machinery and transport equipment followed by chemicals, what comes from the comparison off non-tariff barriers in the US and the EU (see Table 1) is that the three biggest industries that can benefit from their lowering are respectively: food stuffs/beverages, cosmetics and the automotive. The only area where negotiations could go relatively smoothly is cosmetics. Food/beverages and automotive sectors are very politically sensitive in both the US and the EU. But contrary to the public perception, and despite the fact that the EU food regulations are very demanding, in both areas the US is more protective. One has to bear in mind the EU-US GMO or beef hormone disputes, that were spoiling transatlantic economic relations for decade.

So the negotiation would rather imply to work out a common regulatory approach, which may in fact take years as the domestic /national constituencies will be involved in the process. It is obvious that the two sides must agree first on the regulatory side, before they start the negotiation on extending access. Regulations cannot simply be removed, as in the case of tariffs, as they are usually underlain by wider political and economic objectives. We should rather realistically assume, that **cross-recognition of standards will be at the heart of the whole negotiation.**

The US due to its own political paralysis cannot also agree on the deal coordinating the rules in the 460 trillion Eur deriviates market. It may be the big blind spot on the TTIP. It is worth remembering, that the EU and US account together for 80% of global financial transactions. If the two major economies cannot agree on this, there is a risk of growing mess in that sector worldwide.

Table 1

Trading costs of non-tariff barriers in the USA and the EU[5].

Tariff equivalents in %	EU barriers against EU exports	US barriers against EU exports
Chemical products	23,9	21
Medications	15,3	9,5
Cosmetics	34,6	32,4
Electronics	6,5	6,5
Office and telecom equipment	19,1	22,9
Automotive	25,5	26,8
Aerospace	18,8	19,1
Foodstuffs/beverages	56,8	73,3
Metals	11,9	17
Textiles and clothing	19,2	16,7
Wood and paper products	11,3	7,7
Average goods	**21,5**	**25,4**
Finance	11,3	31,7
Insurance	10,8	19,1
Business and computer services	14,9	3,9
Telecommunications	11,7	1,7
Average services	**8,5**	**8,9**

[4] Joseph Francois, Miriam Manchin, Hanna Norberg, Olga Pindyuk, Patrick Tomberger, Reducing Transatlantic Barriers to Trade and Investment. An Economic Assessment. Final Project Report, Centre for Economic Policy Research, London 2013.

[5] Source: Günter Deutsch, Atlantic unity in global competition: T-TIP in perspective, Deutsche Bank Research, EU Monitor, 19.08.2013, p. 4.

Bumpy road ahead

It is projected that an ambitious and comprehensive TTIP could bring 119 billion EUR for the EU and 95 billion EUR for the US annually[6]. However, the potential agreement will likely not be as comprehensive as one could hope. Both the EU and US negotiators came to the conclusion, that the TTIP should be ambitious but not to the extent that it becomes unrealistic. In result, they are currently living aside the issues, which could potentially be disruptive. In every case, the road ahead can be rocky.

First, one has to remember that the advanced economies are primarily based on the service sector. Here are also most jobs, both in Europe and the US. Protected services on both sides account approximately for about 20% of combined EU and US GDP, that is more than the protected agriculture and manufacturing sectors taken together. Removing barriers between them would amount to equivalent of 50 years worth of GATT/WTO liberalization of trade in goods[7]. However, the potential liberalization of services is –again- highly sensitive in the European Union. No need to remind how the 'Polish plumber' became the symbol of it, which strongly influenced the result of 2005 French referendum on the proposed EU Constitutional Treaty. It is highly unlikely that the 'Service directive' will be examined in the EU before the big change in all European institutions, namely the 2014 election to the European Parliament and the following elections of the European Commission and European Council's presidents. So the 2015 is the earliest possible date in the EU calendar.

The negotiation is additionally undermined by the regularly occurring NSA revelations. Although the politicians on both sides of the Atlantic try to avoid creation of direct links between these issues, it is worth to stress, that the problem of privacy is highly politically sensitive in Europe. No need to remind how the European Parliament, which will have a final say on TTIP, refused to accept the SWIFT agreement. US decision-makers should not undervalue this issue and its potential to disturb TTIP negotiations.

Furthermore, the first round of negotiation between the EU and the US has not started surprisingly because of the US government shutdown. Clearly, **the big danger is that the TTIP negotiation lose its momentum**.

The EU and US should also **keep in mind the principle of openness to third parties**. Only few in Asia or Latin America believe that the TTIP will not have any negative consequences for other parts of the world. The danger that it will create coercive power and in result undermine the trade relations with other countries is real. It can derail any effort aimed at keeping the WTO alive. In Europe and the US the dichotomy 'multilateral vs. transatlantic' is considered as a false choice[8].
In fact, every international economic deal has its winners and losers. For example, the calculation of comprehensive transatlantic FTA, or even the case of simple elimination of tariff between the EU and the US show that other economies cannot be indifferent to such deals (see Table 2).
In consequence, **this would be the worst case scenario if the regionalized trade alliances build the protective walls against each other**.

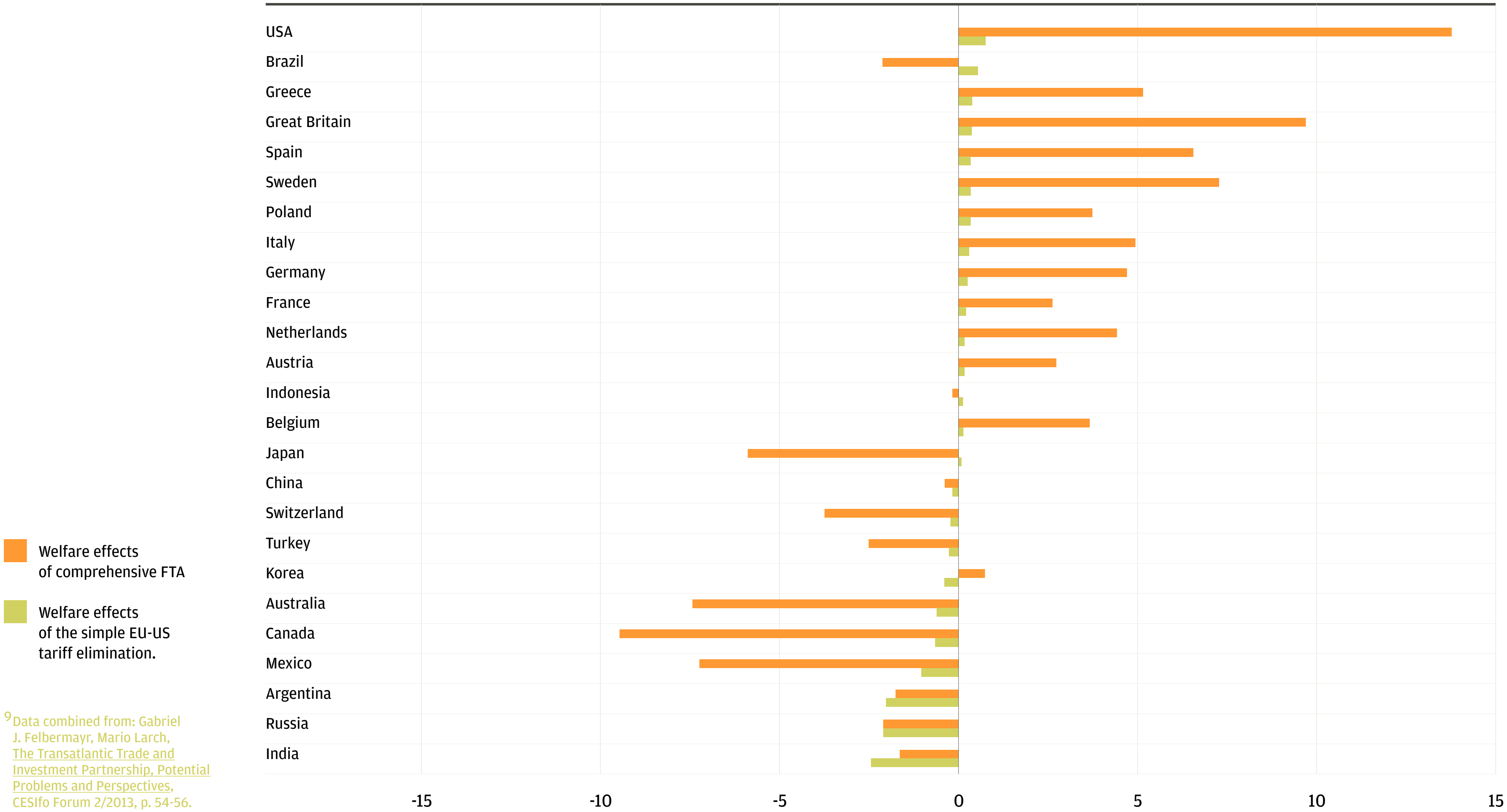
[6] Joseph Francois and others, op. cit.

[7] Dan Hamilton, Winning the Trade Peace: How to make the most of the EU-US Trade & Investment Partnership, Foundation New Direction, Brussels 2013.

[8] See: Dan Hamilton, Winning... p. 24.

Table 2

World winners and losers of potential transatlantic deal[9].



[9] Data combined from: Gabriel J. Felbermayr, Mario Larch, The Transatlantic Trade and Investment Partnership, Potential Problems and Perspectives, CESIfo Forum 2/2013, p. 54-56.

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