Bridging the Transatlantic Economy:
The Transatlantic Trade and Investment Partnership in Historical Perspective

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Introduction

Given the lackluster recovery following the financial crisis, leaders in the United States and European Union recognized the need for a policy response that would create economic growth and encourage job creation. With national debt levels elevated and legislators unlikely to support additional stimulus spending, attention turned towards trade policy to spur innovation and investment across the Atlantic. With the strong support of the European Commission, as well as German Chancellor Angela Merkel and British Prime Minister David Cameron, President Obama announced in his 2013 State of the Union Address that the United States would launch talks on a comprehensive Transatlantic Trade and Investment Partnership (TTIP) with the European Union.

Designed to lower barriers to trade and investment between the two economies, TTIP would remove tariffs on all but the most sensitive goods and services, and attempt to streamline regulations on both sides of the Atlantic to improve efficiency and encourage a high-standard global "race to the top." While this is not the first attempt to integrate the transatlantic economy, there is reason to believe this time the efforts may gain traction. Both the US and EU have been mired in a state of economic stagnation for nearly five years, and robust growth is not expected to emerge anytime soon without major changes.

Therefore, while the trade negotiations are just beginning, the implications that an ambitious TTIP would have on the world economy and global politics are worthy of notice and public dialogue—and both its potential benefits and political obstacles deserve to be debated openly and fairly.

What is TTIP?

TTIP is a trade and investment agreement currently being negotiated between the United States and the European Union. If successful, this effort would significantly deepen the relationship between the world's two leading economies and create the world's largest free trade area.

By streamlining the two regions' regulatory regimes, TTIP is expected to significantly strengthen both the European and American economies. The current EU-US relationship already supports a combined 13 million jobs, nearly $3.9 trillion in two-way foreign direct investment, 45 percent of global GDP, and over a third of global trade. The European Union remains by far the largest destination for US exports and is also the largest source of imports into the United States, and bilateral trade in goods and services passed the $1 trillion mark in 2012.[1] In fact, more than $2 billion worth of goods alone crosses the Atlantic each day.

Given the already-deep level of interconnectedness of the transatlantic economy, it can be difficult to understand why a transatlantic agreement would be worthwhile. To be clear, TTIP is not a typical free trade agreement. Unlike conventional trade agreements, TTIP is not primarily about lowering tariffs between the US and EU—most of which are already low. Instead, American and European negotiators recognize that the bulk of potential economic gains—up to 80%—would come from the elimination of contradictory standards, greater regulatory alignment, and increased access to services and government procurement markets.

Prior to deciding to negotiate a potential trade agreement with the United States, the European Union carried out an impact assessment of the economic, social, and environmental impacts at varying degrees of trade liberalization with the US. In every scenario, the overall outcome was positive. One particular assessment, commissioned by the Centre for Economic Policy Research (CEPR), suggested that the EU's economy could benefit by €119 billion annually, equivalent to an additional €545 per family of four.[2] In a similar study conducted by the Atlantic Council, the gains for US states are equally impressive. All fifty states would increase their exports to the European Union and add jobs related to TTIP, with a nationwide net employment gain of approximately 750,000 jobs due to increased trade alone. Further, American households stand to gain approximately $865 annually.[1] These gains are due to both the higher wages associated with export-oriented jobs and the additional disposable income available to families across the economic spectrum due to the lower costs of imports from Europe.

According to the European Union, regulations which differ slightly yet protect consumers to the same degree add the equivalent of 10-20% in compliance costs to the price of goods, an expense that is usually borne by consumers. TTIP would remove these costs and eliminate transatlantic tariffs in all but the most sensitive areas (including, perhaps, defense markets). Thus, integrating the transatlantic marketplace would have significant benefits to both businesses and consumers.[2]

While the potential economic benefits of an ambitious TTIP are quantifiable, there are justifiable concerns being voiced by consumer groups and labor interests. Detractors have argued that TTIP could result in a regulatory "race to the bottom" and damage cultural diversity. Europeans fear that the transatlantic agreement could override EU rules governing popular environmental protections and genetically-modified foods which have been overwhelmingly rejected by consumers across the continent. Additionally, the French government is pushing to prevent cultural industries—including music, film, and literature—from being included in the negotiations. France, along with some other European member-states, is wary of losing its prized "cultural exception" which allows the government to heavily subsidize the arts in order to encourage linguistic and cultural diversity globally. These concerns will have to be addressed judiciously and transparently by the negotiators so that both public and political support for the agreement can be built and maintained.

It is important to note that TTIP certainly does not represent a pivot away from the multilateral trading system for either the United States or Europe. Some skeptics worry that the talks could tie up a considerable portion of American and European negotiating capacity, thereby diverting attention from the ongoing Doha Development Round at the World Trade Organization (WTO). More broadly, expanded trade between the US and EU could divert trade away from other established trading partners including Mexico, Canada, and Turkey.[3] To avoid such side effects, the transatlantic partners may push for a conclusion to the Doha Round that aids both developing and developed nations—and indeed the pressure on the rest of the world from a unified transatlantic position would certainly increase the odds of this happening. Moreover, the TTIP needs to be designed in such a way that it is both compatible with existing WTO rules governing most-favored nation status and open for additional members who meet the requirements to join at a later date.

Significance of TTIP

TTIP demonstrates a departure from previous American and European proposals for a transatlantic free trade area that have arisen in various forms over the past few decades. Though the two sides have tried to integrate before, this time really does seem different.

Following the 2008 financial and Eurozone crises, both sides of the Atlantic have acknowledged the necessity to revitalize their stagnant economies and create jobs. Moreover, given current levels of government debt, a deepened transatlantic trade relationship signifies a potential deficit-neutral stimulus plan.

A deep and more integrated relationship between the EU and US, say TTIP proponents, offers considerable potential benefits to consumers and companies alike. Goods will be cheaper and firms will be able to invest their capital more efficiently and effectively once tariffs are removed and regulations are streamlined. Hundreds of thousands of jobs will be created in export sectors and in the logistics companies needed to effectively transport these traded materials.[4] Additionally, many services-sector jobs will be added in fields as diverse as travel, accounting, and legal services as consumers have additional money to invest and spend.

Beyond pure economics, supporters argue that TTIP represents a key strategic opportunity for the EU and US to come together as they face the rise of emerging markets that typically subscribe to a different economic model—one focused on the role of state-owned enterprises and government-directed investment decisions.[4] At this historic inflection point, the transatlantic partners have a key opportunity to revitalize their own economies by significantly lowering the remaining barriers between them. A truly ambitious, game-changing agreement has the potential to send a powerful message to the emerging markets regarding a strengthened transatlantic commitment to the development of global rules and standards.[1]

This could be the last best chance for the transatlantic partners to demonstrate the effectiveness of an open, rules-based economic model with strong protections for workers, the environment, and intellectual property. Failure to come to an agreement would have significant consequences, especially given the level of political capital invested in this project at the highest levels of both European and American government.

Historical Perspective

Traditionally, the US and EU have been the indispensable allies directing the integration of the international economic system. After World War II, the transatlantic partners oversaw the formation of numerous institutions intended to stabilize the global economy. Meeting at Bretton Woods, New Hampshire in 1944, the Allied powers created the International Monetary Fund and the World Bank, and signed the General Agreement on Tariffs and Trade (GATT), the precursor to today's WTO. The US and EU were also central to the creation of the Organization for Economic Cooperation and Development (OECD) in 1961, the International Energy Agency (IEA) in the mid-1970s, the G5 (which became the G8) in 1975, and the WTO in 1995.

For many years, these institutions performed their roles reasonably well: reducing barriers to trade; promoting economic and financial stability; and providing development assistance. They collectively addressed the major economic challenges of the second half of the 20th century: the transition from colonialism to market economies; the end of fixed exchange rates, and the liberalization and globalization of trade. They also provided for an ongoing productive dialogue among key players. Through these efforts, they helped to provide order and legitimacy in the world economy. In fact, as new countries declared independence or moved away from Communist-era command economies, they sought to join the WTO, the IMF, and other institutions as an indication of their new status, underlining the importance and success of these organizations. However, as those institutions were designed for a different era, they have recently struggled to adapt to the changes and address the challenges brought on by globalization, primarily the increased importance of capital flows and investment, the role of the private sector in development, increasing competition for energy supplies, and risks posed by large and growing financial imbalances.[5]

Europe and the United States sought to fill the holes left by these institutions in their economies with numerous attempts at developing an integrated transatlantic marketplace. In 1995, representatives from the US and EU met in Madrid and adopted the New Transatlantic Agenda (NTA) designed to strengthen transatlantic economic relations. The primary accomplishment of NTA was establishing more frequent and structured dialogues between the two regions. In 1998, the Transatlantic Economic Partnership (TEP) was created in London. It sought to improve cooperation between the US and EU within the context of NTA, but TEP produced few tangible results. Following a summit in Washington in 2002, "Guidelines for Regulatory Cooperation and Transparency" were established to improve the regulatory policymaking dialogue on both sides of the Atlantic to ensure that each other's standards were more streamlined. At a 2004 summit in Shannon, Ireland, the EU and the US outlined the "Strategy for Strengthening EU-US Economic Partnership," which aimed to engage the public on transatlantic trade issues and strengthen the American position in favor of removing barriers between the US and EU. The summit called on political leaders to continue discussions to determine the feasibility of a transatlantic free trade agreement. As a result of the Shannon summit, the EU and US released a declaration in 2005 to begin an "Initiative to Enhance Transatlantic Economic Integration and Growth." This was designed to expand economic opportunities and promote prosperity. In 2007, President George W. Bush, along with European

Commission President José Manuel Barroso and German Chancellor Angela Merkel, signed an agreement that established the Transatlantic Economic Council (TEC) to oversee and encourage economic policy coordination between the United States and European Union. Highlighted areas of cooperation included regulation, intellectual property rights, innovation and technology, secure trade, and investment.[6]

However, the TEC quickly devolved into a forum that highlighted transatlantic divergences rather than help the two sides overcome their differences. Headlines focused on US and EU arguments over hormone-treated beef, chlorinated chicken, and subsidies for Boeing and Airbus. It became clear that in order for a truly game-changing transatlantic partnership to take shape, the dialogue needed to be elevated. Thus, in November 2011, a High-Level Working Group on Jobs and Growth (HLWG) was established under the leadership of US Trade Representative Ron Kirk and EU Trade Commissioner Karel de Gucht to examine both tariff and non-tariff barriers to trade, the potential for improving the compatibility of regulation standards, and judge the feasibility of a comprehensive trade and investment agreement between the US and EU. Determining the potential gains to vastly outweigh the understandable difficulties of streamlining multiple regulations and removing tariffs, the two sides decided to move ahead.

Current Status

Therefore, on February 13, 2013, President Obama announced during his State of the Union address that his administration would begin formal trade negotiations with the EU. The same day, European Council President Herman Van Rompuy and European Commission President José Manuel Barroso initiated their own dialogue with the European Parliament. At the G8 meetings in Lough Erne, Northern Ireland, in June, the presidents of the United States, European Commission and European Council, and the prime minister of the United Kingdom, committed themselves to removing barriers to trade and investment between the US and the EU. On June 14, the member-states of the European Commission gave the go-ahead to initiate talks with the US on TTIP.

In the United States, increasing trade with the EU is viewed positively by political interests as diverse as Congress, organized labor, and the general public. In fact, a large and growing number of bipartisan members of Congress have already called for Trade Promotion Authority (TPA) to be enacted for the TTIP discussions. TPA would afford the Obama administration considerable room to maneuver, and ensure that Congress, while retaining its ultimate and essential democratic oversight over international trade agreements, does not interfere with the minute details of the process or endlessly amend the final deal. The AFL-CIO offered qualified support for a potential trade agreement, citing European Union member-states' "advanced economies, high national incomes, and well-developed legal and regulatory regimes designed to protect the environment and defend workers' rights." Further, a 2010 Pew Research Survey also found that American public support for increased trade with the EU remains high. 58 percent of those surveyed see it as advantageous for the United States compared to 28 percent who think it would negatively impact the US economy. These numbers are quite high, especially when compared with typical levels of public support for international trade.[7]

The first round of negotiations took place in July in Washington, DC. During this initial round, each group set out their respective approaches and ambitions. The negotiators also met with 350 key stakeholders—representing business, consumer, environmental, and labor interests—to listen to their presentations and to answer questions about the scope of the proposed agreement. With a focus on procedure, negotiators established priorities, exchanged ideas, and set up technical work-streams to determine where their interests already aligned. The approximately 150 delegates were split into 24 working groups focusing on the wide range of issues—including market-access, trade and regulatory convergence—to be covered by TTIP. This process-oriented approach allowed negotiators to forestall debates that could potentially disrupt an agreement right at the start. It is likely that many controversial issues will not be addressed until later stages.[8]

Well aware of the political risks of conducting these negotiations in secret, the EU and US have taken major steps to increase transparency. The US released the names and contact information for its lead negotiators, and the EU publicly released six of their 10 initial position papers, though they were previously leaked. Moreover, both the European Commission and Office of the US Trade Representative have publicly committed to meeting with all interested parties throughout the negotiation period. Increased inclusiveness and openness in the negotiation process was reaffirmed by witnesses at a July 24, 2013 House Energy and Commerce Committee hearing, where members of Congress insisted on an open dialogue between Capitol Hill and USTR.[8]

The second round of negotiations was set to take place in Brussels during the week of October 7 – 12, but the American trade delegation was forced to cancel their trip due to the US government shutdown. The second round was recently held on November 11-15 in Brussels, and the third round is scheduled for Washington in mid-December.[9]

Pressure Points

A recent study by the Atlantic Council and the Bertelsmann Foundation surveyed key stakeholders on both sides of the Atlantic from both the public and private sectors to gauge what will be the most important and the most difficult issues under negotiation.

Two issues were consistently viewed as especially important: convergence in the process by which regulations are designed and implemented and convergence in regulations and standards for manufactured goods. Other areas deemed especially important by stakeholders include work on sanitary and phytosanitary (SPS) measures, lowering or eliminating tariffs, convergence in financial services regulation, and work on data protection and privacy. National origin content quotas and ownership restrictions on audio-visual materials (A/V) were seen as less important, perhaps because of the migration of A/V commerce online. Two final issues—

environmental standards and labor standards—were rated at the lowest order of importance among stakeholders, reflecting perhaps the already generally comparable levels of environmental and labor standards on both sides of the Atlantic.[7]

Survey respondents by a large margin ranked the reduction or elimination of tariffs as the least difficult issue at hand. The issue deemed next least-difficult was a reduction of restrictions on energy exports from the US, recently an area of increasing interest given the rapid development of shale gas deposits. The issue ranked the third least difficult was that of establishing common principles on state-owned enterprises, domestic ownership requirements, and subsidies vis-à-vis third countries, particularly China. Not surprisingly, an issue that touches many topics recently brought to the fore by the ongoing NSA scandal—the alignment of regulations concerning data protection and privacy—is considered extremely difficult. Transatlantic regulatory process convergence is particularly challenging, deemed by experts as both one of the most difficult issues and the most important overall to the agreement. Alignment in the use of GMOs and hormone-treated agricultural products was deemed the most difficult issue of all, particularly given the insistence by Commissioner de Gucht that: "A future deal will not change the existing GMO legislation. Let me repeat: no change."[7]

These findings are consistent with public statements by policymakers that caution there is little or no "low hanging fruit" to be found in the course of these negotiations. Nevertheless, there is a degree of variability across the issues that gives some sense of what the potential sticking points will be and where compromises are most likely. The issues that are considered most difficult and most important will require the most significant investment of political capital and active engagement from leadership to ensure that everyone is working together to bridge these wide policy differences. Each of these issues, specifically data privacy, standards for manufactured goods, and the transatlantic regulatory process generally, has the potential to derail negotiations if not handled effectively.[4]

The survey's findings were proven quite accurate in the first round of negotiations in Washington, where longstanding and contentious issues like sanitary and phytosanitary (SPS) policy and agriculture issues were discussed in depth. With recent allegations of US spying on EU offices, data privacy issues were somewhat muted in the first round. The chief US negotiator, Assistant US Trade Representative for Europe and the Middle East Daniel Mullaney, stressed that data-protection conversations relevant to the spying scandal would remain in the US-EU data-protection working group, not in the TTIP talks. Still, these conversations will be necessary given the growing importance of e-commerce and the Internet to the American and European economies. High-level political commitment by US and EU officials at the presidential and senior ministerial level will be vital to ensure negotiations do not get bogged down in the details as they previously have when handled solely by technical experts.[8]

For both the United States and Europe, TTIP represents the first trade negotiation with a truly equal partner—in terms of both size and level of economic development. Whereas other free trade negotiations, such as the ongoing Doha Development Round, have stalled when faced with the challenge of stark economic differences between involved parties, TTIP hopes to draw on the comparable economic structures between the United States and the European Union. Canada, after four years of negotiation, has paved the way by agreeing in principle to such an agreement with the European Union in October of this year. CETA, as the EU-Canada agreement is known, will significantly reduce tariffs and other regulatory barriers to trade over the next two years.

Cultural differences, namely the European desire to use subsidies to protect linguistic and cultural diversity, between the EU and US may still prove to be a challenge for negotiators to overcome, but key stakeholders on both sides of the Atlantic hope that TTIP will deepen an already strong and interconnected economic and strategic relationship. Indeed, TTIP can develop global rules and standards with strong protections for workers, the environment, and intellectual property.

Conclusion

TTIP must be a truly 21st century trading agreement—one that reinforces the competitiveness of the US and EU, while inspiring other like-minded trading nations to adopt the rules and standards agreed to by the world's two largest economies to join in and create economic growth globally.

Rather than indicating that the US and Europe are giving up on global free trade, TTIP represents a recognition that the current liberalization model is stuck and in need of a jump-start. Supporters hope that building a common transatlantic market with high standards and strong protections of intellectual property will demonstrate the effectiveness of this model for the 21st century economy and inspire developing countries to adopt a similar economic plan. It could even shift the thinking in countries like China that have to this point relied on a central state planning model. If anything, the WTO would be reinvigorated after the implementation of TTIP, as it would reenergize global trade broadly.

To be sure, significant challenges remain for TTIP proponents. Leaving aside the ongoing debates on espionage and data privacy stemming from the Edward Snowden revelations, legislators in both the United States and European Union have significant concerns related to free trade in general and TTIP specifically. Agricultural interests will protect their subsidies and rules governing their use of genetically-modified organisms. Cultural concerns will not disappear quietly either. Both sides will have to learn the true value of compromise. Given that the US and EU have traditionally only concluded free trade agreements with developing or small nations, this will be the first time either is forced to truly make concessions to achieve a deal. If agreement on TTIP is to be reached, deep and sustained leadership on both sides, at the presidential level, will be required.

Sources

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