Chapter 1

The Strategic Significance of TTIP

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In 2013 the United States and the European Union began negotiation of the "Trans-Atlantic Trade and Investment Partnership," or TTIP, arguably the most significant U.S./Europe-focused economic growth initiative since the Marshall Plan. Like the Marshall Plan before it, TTIP is a "strategic" move to strengthen U.S.-European relations for the long term, just as much as a means to accelerate economic growth.

Not a New Idea

The idea is not a new one. In the early 1990s, the dissolution of the Soviet Union and the fall of the Berlin Wall—and the Maastricht Treaty's creation of a dynamic European Union out of the "euro-sclerotic" European Community that preceded it—led thinkers and statesmen to consider whether a similar initiative ought to be taken in the transatlantic relationship.

The United States had just completed the North American Free Trade Agreement (NAFTA) with Canada and Mexico, and the United States and the European Union had collaborated in the successful conclusion of the Uruguay Round of trade negotiations, creating the World Trade Organization in the process. With the end of the Cold War, it was reasonable to worry whether NATO would continue to be as relevant to the central security objectives of the United States and European nations, and whether it would continue to be the glue to bind together the United States and Europe.

Fittingly, it was two *foreign* ministers—Britain's Malcolm Rifkind and Germany's Klaus Kinkel—who were among those who prominently proposed in 1995 the negotiation of a Trans-Atlantic Free Trade Agreement (TAFTA) to eliminate tariffs and other economic barriers across the Atlantic, thereby complementing NATO and more closely tying together the U.S. and European economies.[1]

The Kinkel and Rifkind proposals ignited a short but intense debate among foreign policy and economic elites on both sides of the Atlantic as to the viability of a TAFTA. Some said that a TAFTA would be both "too small" and "too big." Too small in that tariff barriers were already so low that they do not matter, and too big in that so many sensitive vested interests would be affected that it would not be worth the political capital to undertake it.[2]

In retrospect, it is clear that the TAFTA vision was too much trade liberalization too soon after the Uruguay Round in a strategic environment that was itself too uncertain. European farmers were worried that European agriculture had been mortally wounded by the WTO's embrace of bindings on agricultural trade barriers; subsidy battles raged (e.g., over aircraft); and both the U.S. and the EU trade communities were focused on emerging economies as sources for export growth.

Also, U.S. and European policymakers feared that a regional, preferential trade agreement between the two largest economic areas (representing two-thirds of global GDP at the time) would seriously undermine the rules-based multilateral trade system that had been created with the WTO. Some thought a TAFTA might lead emerging markets to create similar agreements among themselves, damaging U.S. and European trade interests more than would be gained by the elimination of modest (between 3-4% on a trade weighted basis) tariffs across the Atlantic. In any case, economists on both sides of the Atlantic pointed out that barriers resulting from different regulatory approaches constituted far more serious barriers to trade than tariff levels.[3]

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[1]"Remember NAFTA? Well, Here Comes TAFTA," *Businessweek*, May 7, 1995 (http://www.businessweek.com/stories/1995-05-07/remember-nafta-well-herecomes-tafta-intl-edition).

[2]Siebert, Horst; Langhammer, Rolf J.; Piazolo, Daniel, "TAFTA: Fueling Trade Discrimination or Global Liberalization?" Kiel Institute for World Economy, Kiel Working Papers, No. 720, 1996 (http://www.econstor.eu/bitstream/10419/869/1/193325942.pdf).

[3]Ibid., pp. 15-16.

As a result, when in December 1995 the United States and the European Union declared the "New Transatlantic Agenda," the two entities pledged increased attention to regulatory and other barriers to trade, but stopped short of deeper commitments to a regional trade agreement.[4]

Politically, new projects for transatlantic cooperation quickly emerged: the stabilization of the Balkans after the break-up of Yugoslavia (and the wars that followed), and the enlargement of the European Union and NATO, designed to incorporate the vulnerable states of central Europe newly free from the Warsaw Pact looking for allies and a prosperous economic future.

Other priorities captured the imagination of the United States and the European Union over the following fifteen years. The European Union did enlarge, from the 15 member states of 1995 to 28 member states in 2013. NATO also enlarged, despite strident opposition from the Russian Federation. The terrorist attack of 9/11 in New York, and subsequent attacks in Madrid and London, brought about transatlantic cooperation in counter-terrorism. The U.S. intervention in Afghanistan became a NATO mission.

In the trade world, momentum to build on the Uruguay Round was stymied first by determined opposition in developed countries (especially the violence at the Seattle WTO ministerial of 1999) and then, following the launch of a new multilateral round of trade negotiations at Doha in 2001, by skepticism concerning the merits of negotiated trade liberalization in major emerging economies, especially India and Brazil. So even though the United States and EU had not pursued a TAFTA, many of the feared adverse effects happened anyway.

At the "coal face" of the U.S.-EU relationship, various efforts were made to deal with the regulatory barriers to trade even without a free trade agreement. A series of limited mutual recognition agreements were reached, although only in sectors with clear support from industry and regulators. In 2007, with White House leadership and support,

[4]"The New Transatlantic Agenda," December 5, 1995 (http://useu.usmission.gov/new_transatlantic_agenda.html). The New Transatlantic Agenda did envision a "joint study" of "ways of facilitating trade in goods and services and further reducing or eliminating tariff and non-tariff barriers," but such a study was never undertaken.

a Transatlantic Economic Council (TEC) was set up to bring regulators, trade and finance ministry officials together to tackle U.S.-EU barriers to trade and investment.[5] It had limited success.

What's Different Now?

As the "post" post-Cold War era began, U.S. and EU economic relations looked ripe for new attention and ambition. As an early sign of the "rebalancing" to Asia, in 2010 the United States had agreed with a number of Pacific Basin trading partners (including several countries that had existing free trade agreements with the United States) to the negotiation of a "Trans-Pacific Partnership" (TPP) to include "high-standard" trade and investment liberalization provisions. Some began to ask why not do something similar with Europe, which has been mired in a slow growth recovery from the great recession of 2008-09? After all, the United States and the European Union represent nearly half of global GDP and 30% of world trade, exchange goods and services worth $2.7 billion every day, and have directly invested more than $3.7 trillion on both sides of the Atlantic.[6]

At the U.S.-EU Summit in November 2011, the United States and the European Union announced the creation of a High Level Working Group to examine the feasibility of a thorough-going high-standard trade and investment liberalizing agreement. (Such a study group also preceded the decision to proceed to negotiate NAFTA.)

With evidence mounting of European interest in the idea of a high-standard, trans-Atlantic economic liberalization agreement, U.S. Secretary of State Hillary Clinton encouraged the idea in remarks at a Brookings Institution conference in November 2012.[7] In his State of the Union Address in January 2013, President Barack Obama embraced the idea, saying "[a]nd tonight, I'm announcing that we will launch talks on a comprehensive Transatlantic Trade and Investment Partnership with

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[5]http://www.state.gov/p/eur/rt/eu/tec/c33255.htm.

[6]*Final Report, High Level Working Group on Jobs and Growth*, February 11, 2013 (http://www.ustr.gov/about-us/press-office/reports-and-publications/2013/final-report-us-eu-hlwg), p. 1.

[7]Secretary of State Hillary Clinton, "The U.S. and Europe, a Revitalized Global Partnership," Address at the Brookings Institution, November 29, 2012 (http://www.brookings.edu/events/2012/11/29-transatlantic-clinton).

the European Union—because trade that is fair and free across the Atlantic supports millions of good-paying American jobs."[8]

In conjunction with the State of the Union address, the High Level Working Group released its report.[9] The report identified the following as "potential options" for an agreement:

- "Elimination or reduction of conventional barriers to trade in goods, such as tariffs and tariff-rate quotas.
- Elimination, reduction, or prevention of barriers to trade in goods, services and investment.
- Enhanced compatibility of regulations and standards.
- Elimination, reduction, or prevention of unnecessary 'behind the border' non-tariff barriers to trade in all categories.
- Enhanced cooperation for the development of rules and principles on global issues of common concern and also for the achievement of shared global economic goals."[10]

Following a period of consensus-building in Europe, the European Union approved a mandate for negotiation of a TTIP in June 2013, although the French sought to make their position clear that "cultural" industries were to be off-limits for liberalization.[11] The negotiations formally started in July 2013.[12] In addition to the agenda proposed by the High Level Working Group, the negotiators have committed themselves to find new rules on issues of global concern such as protection of intellectual property and treatment of products and services provided by state-owned enterprises.

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[8]President Barack Obama, "Remarks by the President in the State of the Union Address," February 13, 2013 (http://www.whitehouse.gov/photos-and-video/video/2013/02/12/2013-state-union-address-0-transcript).

[9]*Final Report*, *op. cit.*

[10]*Final Report*, *op cit*, p. 1.

[11]http://www.english.rfi.fr/americas/20130613-france-will-veto-eu-us-trade-talks-if-culture-included.

[12]"Readout from the First Round of TTIP Negotiations, July 8-11, 2013." (http://www.ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/readouts/round1)

The Strategic Advantages of TTIP

A TTIP would in the first instance benefit the U.S. and EU economies. A number of economic analyses have been published, with varying assumptions (mainly about how thoroughly abolished the mainly regulatory non-tariff barriers would be). Britain's Centre for Economic Policy Research estimated economic gains for the EU as a whole amounting to €119 billion per year (after a 10 year phase-in) and €95 billion a year for the United States.[13] A Bertelsmann Foundation study estimated even bigger gains, predicting economic gains to the United States from a deep liberalization scenario equal to 13.4% of GDP, with benefits for major EU member states in the 5-9% of GDP range.[14] Even if the impact is on the lower end of the scale, it is still important and can help support growth and investment trends in the two largest (but most mature) global markets.[15]

If successfully concluded and ratified by the U.S. Congress and the European Council, however, the TTIP would be much more than a trade agreement. It would mark the beginning of a new period for U.S.-European cooperation, one less dependent on only the NATO connection. Among the strategic advantages of the trade and investment deal are the following:

It would provide a new sense of purpose for transatlantic relations, at a time when the United States has stated its intention of rebalancing to Asia and is reducing its military presence in Europe. These two developments are causing some Europeans to question the commit-

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[13]Francois, Joseph, Miriam Manchin, Hanna Norberg, Olga Pindyuk, and Patrick Tomberger, *Reducing Trans-Atlantic Barriers to Trade and Investment: An Economic Assessment*, London: Centre for Economic Policy Research, 2013, p. vii.

[14]Felbermayr, Gabriel, Benedikt Heid, and Sybille Lehwald, "Transatlantic Trade and Investment Partnership: Who Benefits from a Free Trade Deal?" Global Economic Dynamics, *Bertelsmann Stiftung*, June 17, 2013 (http://www.bertelsmann-stiftung.de/cps/rde/xchg/SID-EEC0BA1A-B12DB94A/bst_engl/hs.xsl/nachrichten_116768.htm).

[15]However, some TTIP opponents question the value of such economic impact analyses and emphasize the modest size of the expected economic gains. See, for example "TAFTA Studies Project Tiny Economic Gains, Assume No Costs from Gutting Safeguards," Eyes on Trade, *Public Citizen*, December 18, 2013 (http://citizen.typepad.com/eyesontrade/2013/12/tafta-studies-project-tiny-economic-gains-assume-no-costs-from-gutting-safeguards.html).

ment of the United States to Europe. Continued sharp reductions in European defense budgets are leading some Americans to question Europe's commitment to NATO. TTIP would also counteract impressions in some quarters of a supposed "decline of the West."

TTIP would provide significant economic stimulus at a time of slow growth. Although eliminating tariffs with the United States would reduce EU revenues and vice versa, eliminating quotas and more compatibility in standards and conformity assessment would be revenue-neutral or might reduce expenses.

TTIP would provide a positive political context in which to attack the most significant impediments to trade and investment among the two entities: the inconsistent regulatory approaches to product regulations, including health, safety and environmental regulation. Despite occasional assertions[16] to the contrary, the United States and the European Union both have strong regulatory systems to protect consumers and the environment. These systems have been developed over many years and in many cases grounded in legislation. Inconsistent and incompatible regulatory approaches impose substantial burdens on industry and consumers. They are even more evident in the absence of tariffs. Different product designs, package labeling, dimensions and a host of other details increase production and marketing costs. So in addition to the elimination and reduction of specific regulatory barriers to be provided for in the agreement itself, TTIP would provide momentum towards regulatory convergence.

Already, the U.S. Department of Agriculture has announced that the Animal and Plant Inspection Service will modernize U.S. bovine spongiform encephalopathy (BSE)-related import requirements to be more consistent with international regulations; in other words the United States will now accept EU beef and bovine product exports.[17]

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[16]See, for example, "Trade Deal to Undermine Health, Environmental Standards," Institute for Agriculture and Trade Policy, Washington http://www.iatp.org/documents/trade-deal-to-undermine-health-environmental-standards-sthash.zoXrwUw1.dpuf; Cole Stangler, "The Next Corporate Friendly Trade Pact," *These Times* (http://inthesetimes.com/article/16044/ttip_the_next_corporate_friendly_trade_deal/).

[17]Kara Sutton, "TTIP Negotiations: A Summary of Round 2," B Brief, Bertelsmann Foundation, December 6, 2013, p. 2.

Within Europe, a successful TTIP can counteract some of the malaise and hostility towards Brussels-based institutions in member states beset by slow growth and austerity, or skeptical of population movements. For Europeans, TTIP can genuinely be said to be more feasible to negotiate by the European Union rather than as separate nation-states.

TTIP would open the door for greater direct participation in transatlantic trade by small and medium-sized enterprises. While multinational companies currently account for large proportions of trans-Atlantic imports and exports (in 2013, 61% of U.S. imports from the European Union, and 31% of EU imports from the United States, were categorized as trade between "related parties"[18]), there would be new scope for exports from, and innovation by, smaller companies. The Internet opens the possibility of successful international marketing by small start-ups offering goods and services, just as it has disrupted many other industries. If niche companies in Milwaukee can start to see market opportunities in Düsseldorf without tariff barriers and associated paperwork, Americans and Europeans will come to realize how much they are linked in a broader transatlantic marketplace.

To realize such a potential small business boom, the agreement will need to be crafted to encourage this type of trade. One way would be to enlarge the *de minimus* allowance for goods shipped by post or small parcel shipment service. That would allow web-based sellers to send packages of goods valued below a threshold (such as U.S. Customs' $800 personal exemption allowance) to any buyer (business-to-business or business-to-consumer) in the United States or the European Union without more paperwork or regulatory burdens than those demanded for shipments within their respective borders.[19] With elimination of tariffs, there would be no reason to worry about valuation and collection of duties. Obviously there would still be categories

[18]Daniel Hamilton and Joseph Quinlan, *The Transatlantic Economy 2013: Annual Survey of Jobs, Trade and Investment Between the United States and Europe*, Washington: Center for Transatlantic Relations, Johns Hopkins University, p.2 (http://transatlantic.sais-jhu.edu/publications/books/Transatlantic_Economy_2013/TE2013 volume 1.pdf).

[19]As proposed by (an interested party): Drucker, Michael L. (Executive Vice President and Chief Operating Officer, Fed EX), "The Transatlantic Trade & Investment Partnership: Achieving the Potential," Testimony to the U.S. Senate Committee on Finance, October 30, 2013.

of goods that could not be traded this way (such as firearms, tobacco or spirits) due to regulatory or safety concerns.

Encouragingly, the United States and the European Union have already agreed[20] to include a chapter on small and medium enterprises in the final agreement. They have created a negotiating group on the topic. And the International Trade Commission is completing a study requested by the U.S. Trade Representative on EU trade barriers that disproportionately affect small and medium-sized enterprises.[21]

Many other issues must also be resolved in the negotiations. In agriculture, while progress has been made in reining-in subsidies and both the United States and the EU are becoming more globally competitive, commodity sectors are distorted by a variety of current and historical support programs. Long phase-in periods may be needed to eliminate tariff and quota barriers completely. Whether and how a TTIP will apply to the large financial service sector will also be a major issue. American regulators are opposed to harmonization of prudential bank regulation, since U.S. law is more demanding that comparable EU requirements. And as noted earlier, the French are strongly opposed to any liberalization that might put their support for their cultural sectors (including film and other media) at risk.

Impact on the Wider World

A TTIP may serve to bring the major emerging markets back to the table in the WTO, offering in the process much expanded market access. In the Pacific, China is newly interested in becoming involved

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[20]As the EU's lead negotiator Ignacio Garcia Bercero stated on December 20, 2013, "... I would like to highlight that it will be critical that the TTIP achieve real and include benefits for the small and medium enterprises, and that this is reflected throughout the agreement, but also in a specific chapter within SME related issues." Transcript (as delivered) "Chief Negotiators Dan Mullaney and Ignacio Garcia Bercero Press Conference Following the Third Round of Transatlantic Trade and Investment Partnership (TTIP) Talks December 20, 2013" (http://www.ustr.gov/about-us/press-office/press-releases/2013/December/TTIP-Third-Round- Press-Conference-transcript).

[21]United States International Trade Commission, Investigation No. 332-541, "Trade Barriers that U.S. Small and Medium-Sized Enterprises Perceive as Affecting Exports to the European Union," http://www.usitc.gov/secretary/fed_reg_notices/332/332_541_notice 07252013sgl.pdf.

in the Trans Pacific Partnership. The advent of NAFTA had a bit of this competitive liberalization impact on the final stages of the Uruguay Round.

TTIP will need to be approached with an eye towards the interests of key trading partners of the European Union and the United States. Under the terms of its Customs Union with the EU, Turkey would be required to provide duty-free access to U.S. goods without gaining corresponding duty-free treatment from the United States. This anomaly could be corrected by a side agreement between the United States and Turkey. The United States would gain much in the application of TTIP's expected enhanced investment provisions and new services access to Turkey; Turkey would gain from tariff reductions for its exports to the United States and participation in the processes designed to de-conflict regulatory systems. The European Union also has free trade agreements with Switzerland, Norway and Iceland where similar benefits of enlargement would be easily achieved.

Mexico and Canada, partners of the United States in the NAFTA, already have separate free trade agreements with the European Union, although the EU's free trade agreement with Canada is not yet ratified. If these agreements were made compatible with a TTIP, a truly seamless Atlantic market would be created.

The United States and the European Union should state now that they will consult with these close trading partners as the TTIP is being negotiated. If TTIP succeeds, the partners would intend to follow with an effort to conform all these agreements (in trade coverage and rules of origin, in particular) to reduce distortions and generalize the benefits.

Do the Right Thing, After Exploring the Alternatives

When I was assigned to the U.S. Mission to the EU as the Counselor for Economic Affairs in the early 1990s, it struck me that all the "good news" seemed to be on the political side of our relationship. At the time, we were working closely with the European Union to build a new Europe "whole and free," tackling emerging threats and better coordinating our initiatives in multilateral organizations. However, when it came to economics and trade, the U.S.-EU relationship was much more contentious. We had seemingly intractable disputes about bananas, beef, aircraft subsidies, mobile phone technologies, mergers, television programming and a host of other issues.

Today, some of these differences and disputes persist. Yet in the context of structural changes in the global economy and the unsettled, acute security challenges in the Middle East and (more distantly) in the Asia-Pacific regions, we have come to realize how "strategic" a strong, balanced and deep *economic* relationship can be for the transatlantic community. In the years ahead, if we grasp the opportunities, the good news indeed can emerge from the economic relationship.

The United States and the European Union may fail to achieve their highest ambitions, but the stage is set for a major step forward with a TTIP, which, by the "Monnet method" under which the EU itself was built, may set the stage for further liberalization. A TTIP, complementing NATO and the other longstanding political and alliance links between us, will be the foundation for a strengthened "Atlantic Basin" that can confidently turn to the Pacific, the Middle East or other challenges in the decades ahead. That will be the strategic significance of TTIP.