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ADVANTAGES AND THREATS OF THE TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP (TTIP)

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INTRODUCTION

Started in November 2011, the original Transatlantic Trade and Investment Partnership (TTIP) timeframe envisaged a conclusion to the talks by the end of 2014. In April, negotiators from the EU and the US finished the ninth round of discussions. The April talks provided a further stepping point to concluding an agreement. The negotiators are now getting ready for the tenth round, while the final TTIP agreement is unlikely to emerge before the end of 2016.

The main goal of the article is to analyze previous publications addressing TTIP. On the basis of these works, I provide a comprehensive summary of the main advantages and threats of this Transatlantic agreement.

The Transatlantic Trade and Investment Partnership is a major trade pact created for the further integration of the economies of the United States and the countries of the European Union. In today's low-tariff reality, the agreement concentrates on eliminating non-tariff trade barriers between the states, such as the differing set of standards in the European Union and in the United States for given consumer goods and services. The logic behind this is the same as in traditional liberal systems: cutting trade costs, including by removing tariffs, is intended to facilitate higher trade volume and overall economic gains. Unfortunately, a number of barriers threaten ratification.

As officials from both sides acknowledge, the primary aim of TTIP is not to stimulate trade by removing tariffs between the two sides, as these are already at minimal levels. It is rather to remove regulatory "barriers" restricting the potential profits to be made by transnational corporations on both sides of the Atlantic. Yet these "barriers" are in reality some of our most prized social standards and environmental regulations, such as labour rights, food safety rules (including restrictions on GMOs), regulations on the use of toxic chemicals, digital privacy laws and even new banking safeguards introduced to prevent a repeat of the 2008 financial crisis. The stakes, in other words, could not be higher. In addition to this deregulation agenda, TTIP also seeks to create new markets by opening up public services and government procurement contracts to competition from transnational corporations, threatening to introduce a further wave of privatisations in key sectors, such as health and education.

EXISTING ASSESSMENT OF TTIP

As is characteristic for trade agreements, TTIP talks have been followed by a number of economic and mathematical studies, providing medium-term simulations of the agreement's economic influence. Within the EU, advocates have pointed to a number of major studies projecting relatively small net benefits for the countries involved and a systematic substitution of intra-EU trade with transatlantic trade.

Estimates from the Centre for Economic Policy Research (CEPR) show that a comprehensive trade agreement would provide an additional 545 EUR in disposable income every year for a family of four. That income would come into play a fair amount of time after the agreement comes into force. The figures from CEPR are based on a scheme that removes 100% of all tariffs, 25% of all non-tariff instruments on goods and services, and 50% of all non-tariff barriers to public procurement. While it is hard to predict welfare benefits for consumers with any precision, the CEPR study shows that families' disposable income would increase under TTIP.

A study done in 2014 by Jeronim Capaldo of the Global Development and Environment Institute at Tufts University points out the losses that would occur in a host of areas: net exports, net GDP, incomes, jobs, labour share, government income. These would be accompanied by significant financial insecurity among European states [Capadlo 2014].

A study provided by the Munich-based Ifo Institute for Economic Research (on behalf of the German Federal Ministry of Economics) claims that up to 400,000 jobs could be created in the EU thanks to the comprehensive agreement. However, Stefan Körzell, national board representative of the Confederation of German Trade Unions (DGB), has suggested that "whether TTIP can bring in new jobs, and 'how many' and 'where' is not clear". Prior studies, starting from those conducted by the European Commission members and finishing with the expertise of the Ifo Institute, have weighed in with assessments ranging between high optimism and very low expectations. The negative effects trade pacts can have if environmental or labour norms are ignored is rarely considered.

Most assessments and studies of TTIP forecast benefits to trade and GDP for both the EU and US. Some also foresee a boon for non-TTIP countries, stating that the agreement would make no losers in the world economy. If this was put into practice, TTIP would be the main force to a more effective allocation of world resources, with some states seeing welfare improved and the rest enjoying welfare at least not worse than before. Unfortunately, as Raza and colleagues have indicated in 2014, these desirable effects depend on multiple unrealistic simulations and on a methodical basis that has proven to be inadequate to assessing the effects of trade reform. Moreover, once the estimations are reviewed, some of these studies have the same questionable economic model and data. The convergence of their effects is therefore not surprising and should not be supposed to independently confirm of their forecast [Ecorys 2013].

The EU has never adopted a free trade agreement that decresed EU living and safety standards. Under the recently negotiated FTA with Canada (Comprehensive Economic and Trade Agreement – CETA), Canadian farmers will be permitted to export beef to the EU if it has has not been produced with growth hormones. The European Commission has made it clear that these issues will not be handled differently in TTIP. Each side will retain the right to maintain or introduce those health and hygiene standards it considers appropriate for the protection of consumers and the environment. This is also in keeping with the Commission's negotiating mandate, as the German Federal Ministry for Economic Affairs and Energy (BMWi) has stated. The majority of both European Parliament members and the general population have made it clear that they are strongly opposed to easing EU standards for health and food safety. Given that TTIP must be approved by the European Parliament and probably (at least in part) ratified by EU Member States as well, it is highly improbable that the EU will ease import restrictions or simplify approval procedures in areas such as genetically modified organisms or hormone-treated meat.

Genetically modified organisms (GMOs). The authorisation of GMOs in the EU is strictly regulated and is only possible after the European Food Safety Authority (EFSA) has conducted an assessment, the European Commission has tabled a proposal, and the Member States have given their approval by a double majority vote. According to the European Commission, this procedure will not be affected by TTIP: EFSA is responsible for assessing food safety in the EU. Genetically modified organisms can only be authorised in the EU if they have passed a rigorous risk assessment.

ADVANTAGES OF TTIP

Transatlantic Trade and Investment Partnership could become the most important trade pact in history, and may also be an unprecedented opportunity for the West to outperform the rest of the world. Its supporters see it as the catalyst that could drive transatlantic trade and investment activity to a whole new level, leaving global competitors with no choice but to look to the EU and the US as the standard setters. The comprehensive deal could put these two transatlantic markets back into the ascendency, invigourating world trade along with it. The research institute the Global Progressive Forum claims that, at just under 2%, the average customs duties between the EU and US are low. However, the average tariff rate conceals "peaks" for individual products – for example, 30% for clothes and shoes and a 10% EU import duty on cars from the US. Critics say there is no proof TTIP will cut the cost of these products, and no way to estimate the financial benefits of the agreement.

The aim of removing barriers to transatlantic services trade and investment is to support professionals to practise on either side of the Atlantic through the mutual recognition of qualifications, or make it easier for companies to become licensed auditors, management consultants or legal advisors. Critics have concentrated on the potential for TTIP to create alternatives to the job losses in particular segments.

Facilitating competition in terms of public contracts. Agreeing rules could ensure EU and US companies are not discriminated against when tendering for public contracts in each other's markets. Moreover, tendering of public contracts would become more transparent. The threat here is that publicly owned services like medical services could be transferred to US companies, making privatisation processes inevitable and irreversible.

Cutting red tape for companies through greater regulatory harmonisation. This is a key challenge that aims to make sure EU and US regulators work even more closely with each other – for example, via information exchange processes and consultation when they develop new regulations or review existing regulations. Critics argue there is already sufficient regulatory cooperation and, with talks being carried out away from domestic authorities and public scrutiny, TTIP is not the forum for pacts to be made.

A key element of these discussions will concern the greater use of internal standards and the elimination or reduction of unnecessarily redundant procedures for checking products. However, critics claim that the difference in regulation is so important that harmonisation is impossible. For example, the US tends to concentrate on achieving its food safety norms by regulating end production, while Europe aims to regulate all production processes [Felbermayr et al. 2013].

Streamlining customs rules and controls to make exporting easier. When EU or US companies export products across the Atlantic, customs workers perform border checks to ensure the products comply with necessary norms and regulations. Transatlantic Trade and Investment Partnership is designed to simplify these procedures, making the process more efficient and saving time, money and unnecessary red tape for exporters. Some experts have pointed out that to facilitate such efficiency and cost reductions, EU countries would be forced to implement additional stringent rules from the US.

With the potentially huge impact of TTIP on the US-EU trade and investment and its bearing on wider global trade and investment flows, the negotiations are expected to continue to be complex and protracted until the final agreement.

It is not only big companies that stand to benefit from TTIP, but also small and medium-sized enterprises (SMEs) and consumers – in fact, a comprehensive agreement will prove much more beneficial for SMEs than one that would only remove or reduce tariffs. Knowing that non-tariff barriers have become the biggest obstacle to transatlantic trade, cutting these NTBs could lead to high cost reductions, which would translate into gains for firms of all sizes and consumers alike.

According to the EU's negotiating mandate, TTIP could increase transparency in competition law and public procurement. This too would be profitable for SMEs, especially as they usually do not have large legal departments at their disposal. Moreover, in European countries like Germany or Finland, SMEs are also highly innovative and invest heavily in research and development. This makes SMEs vulnerable to the breach of intellectual property rights, leaving them in need of the stronger IP protection the agreement is expected to provide.

Consumers also benefit from the agreement, both from low prices and a greater variety of products. This is not only because tariffs will be lower, but also because norms and regulations will be streamlined wherever possible. According to studies by the Dutch institute Ecorys, the extra costs arising from having to duplicate product approval, testing, and validation procedures when importing goods into the EU lead to an average mark-up of 21.5%. Non-tariff trade barriers will not make costs for producers on average by about 35% higher in the cosmetics sector, 26% in the automotive sector, 19% in the textiles and clothing sector, and 57% in the food and beverages sector. The German manufacturing industry estimates that costs for a German machine are increased by 15 to 20% due to redundant testing, certifications, and the production of components just for the US market. All of these costs could be significantly reduced for consumers through TTIP [Morrall 2012].

THREATS AND CONCERNS

Transparency. There is also a great deal of concern about the nature of the TTIP deliberations. Many take issue with negotiations being conducted privately in Brussels by the EU Commission, the executive body of the EU, which is not subject to any public scrutiny. John Hilary from the War on Want organisation contends that "everything is going through Brussels", so there are "no democratic levers over TTIP". As a consequence, as these secret meetings are held between business groups and the EU Commission, TTIP is being "driven by a corporate agenda", producing a "pro-corporate mandate" at the expense of consumers and public life.

It has been suggested that TTIP will tighten up existing so-called Investor State Dispute Settlement (ISDS) provisions. These allow foreign investors to bring proceedings directly against a state via a separate arbitral process, rather than using the domestic legal system. The rationale is that such a mechanism provides investors with greater certainty that claims will be heard in an impartial manner with increased prospects for enforcement. This issue has courted controversy because some EU Member States do not currently have in place bilateral investment treaties with the US. Therefore, including ISDS provisions risks subjecting those states (as well as the US) to claims they would not have otherwise been exposed to [Fontagné et al. 2013].

Other issues that have been raised in relation to the ISDS provisions include:

- the need to make arbitral proceedings transparent and to ensure the independence of arbitral tribunals;
- investment protection provisions must be adopted and the agreed interpretations of the TTIP investment provisions which would be binding on arbitral tribunals must be adopted;
- procedural mechanisms for disposing quickly of frivolous claims must be put in place together with a provision that the losing party bear all of the costs of the proceedings;
- precluding the bringing of claims under the TTIP ISDS provisions and in domestic courts at the same time; and
- Ivestor State Dispute Settlement decisions should be reviewed by an appellate mechanism.

Financial regulation. Closely tied to these concerns is the issue of financial regulation. Critics have called out TTIP for dragging the financial sector away from much needed regulation following the 2008 economic crash. Some have argued that the US Dodd-Frank Act, passed to ensure greater regulation in the financial sector, could be weakened if financial services are included in a trade agreement like TTIP.

In its report, the Allianz Centre for European Reform explains that critics fear that "a package deal could force concessions in regulatory standards at the expense of financial stability. Many in the US […] fear that TTIP could lead to a rolling back of financial regulation agreed under the Dodd-Frank Act".

Moreover, the current difference between financial regulation systems between the USA and Europeen Union is likely to bring antagonism if the agreement goes ahead. Institute for Agriculture and Trade Policy, based in Washington DC, has warned that American "rules to enable trade data surveillance on the foreign affiliate trades of US (over-the-counter) dealer brokers have prompted harsh criticism from foreign, particularly European bankers and regulators".

Poor economic results. Finally, in contrast to EU Commission assurances that TTIP will create thousands of jobs, many point to a high degree of uncertainty over job stability and economic growth in both the EU and the US. Economics Professor Clive George of the College of Europe in Bruges, who has studied impact assessments of trade negotiations, warns that the "economic models on which such estimates are based […] have been described by some leading modelers as 'highly speculative'".

Arguably the most concerning aspect of TTIP for many critics is the Investor State Dispute Settlement (ISDS) mechanism, which is likley to be built into the agreement. This mechanism gives companies the capacity to take legal action against states they perceive to be hindering potential profits. The Corporate Europe Observatory states that this mechanism will "enable US companies investing in Europe to challenge EU governments directly at private international tribunals, whenever they find that changes in law governing public health, consumer, environmental or social protection interfere with their profits. EU companies investing abroad would have the same privilege in the US".

As a result of this measure, according to a report by the Seattle to Brussels Network (S2B), "it is possible that the simple threat of a costly legal dispute would be sufficient to prevent governments from enacting progressive legislation in the future: a serious drawback for any political system that wishes to appear democratic".

CONCLUSIONS

The costs and benefits of the Transatlantic Trade and Investment Partnership (TTIP) are hard to assess with the picture still coming into focus. Many existing studies concentrate on specifying impacts in later years, and few include useful information on the levels of employment and job quality. Even if these were available, we would not be getting a full picture of how the agreement impacts our economy, society and environment.

The current plans to conclude TTIP raise a number of both economic and political questions. This article has examined the potential economic effects for the transatlantic partners as well as for third parties. The empirical literature reveals clearly that TTIP will benefit both the EU and the US. This holds particularly with respect to non-tariff barriers – as reducing them would usher in the largest welfare effect. However, serious measures will be required to overcome the numerous obstacles, mainly vis-à-vis regulations and standards. One way to deal with such standards is to conclude mutual recognition agreements with strict labelling requirements, leading to more choices for consumers without abandoning domestic consumer protection preferences.

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Summary. The Transatlantic Trade and Investment Partnership (TTIP) is a major trade pact created to further integration of the EU and US economies. In today's low-tariff reality, the agreement concentrates on eliminating nontariff trade barriers between the states, such as the differing standards in the European union and in the United States for given consumer goods and services. Unfortunately, a number of barriers threaten ratification. The agreement remains far from implementation and it is hard to measure how the two sides would benefit from it equally.

Key words: Transatlantic Trade and Investment Partnership (TTIP), non-tariff trade barriers, export, import

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