Implications of the EU-US TTIP: The largest bilateral trade agreement in history

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Regional or bilateral trade agreements, like TTIP[2] between the US and the EU, are replacing the Doha Round, launched in 2001 by the World Trade Organization (WTO), due to their potential to achieve higher levels of international trade liberalization and elimination of non-tariff barriers.

The EU and the US are involved in the most ambitious trade liberalization negotiations process ever witnessed. The road ahead will necessarily require surpassing existing difficulties in a number of relevant issues foreseen on the negotiators' agendas. The effects of reaching a free trade agreement between today's two main economic areas are significantly positive and are estimated, in the best case scenario, to generate close to 120 billion euros per year for the European Union. Ex ante assessments of the proposed agreement show that Spain will be one of the countries to obtain the greatest welfare gains from the bilateral partnership for which negotiations have just recently begun.

What is the TTIP?

Since the launch of the Doha Round in 2001, the World Trade Organization (WTO) has been unable to reach significant agreement on how to achieve higher levels of international trade liberalization. Despite the lacklustre progress at the WTO, there has been intense activity in the establishment of bilateral/regional free trade agreements that search for greater levels of liberalization in the area of international trade/relations.

The Transatlantic Trade and Investment Partnership (TTIP) or Transatlantic Free Trade Area (TAFTA) is a future trade agreement that has entered into the negotiations phase following the European Commission's receiving official authorization from EU member states on June 14th, 2013. The G8 Summit celebrated in Fermanagh, Northern Ireland on June 17th officially launched the start of negotiations by Presidents Barack Obama (US), José Manuel Durão Barroso (European Commission), Herman Van Rompuy (European Council) and Prime Minister David Cameron (UK). The first round took place in Washington, DC. The second round will take place in October of this year, in Brussels.

The relevance of TTIP for Spain comes not only in the form of direct benefits, but also in the search for common commercial issues between the world's two major trade partners – the EU and the US. To give some perspective, commercial

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[2] Transatlantic Trade and Investment Partnership.

Table 1

Selection of free trade agreements: In effect and under negotiation

Free trade agreements in effect	Free trade agreements under negotiation
ASEAN Free Trade Area (AFTA)	Commonwealth of Independent States Free Trade Agreement (CISFTA)
Asia-Pacific Trade Agreement (APTA)	Union of South American Nations (CSN)
Central American Integration System (SICA)	Pacific Island Countries Trade Agreement (PICTA)
Central European Free Trade Agreement (CEFTA)	African Free Trade Zone (AFTZ) between SADC, EAC and COMESA
Common Market for Eastern and Southern Africa (COMESA)	Arab Maghreb Union (UMA)
G-3 Free Trade Agreement (G-3)	Asia-Pacific Economic Cooperation (APEC)
Greater Arab Free Trade Area (GAFTA)	Association of Caribbean States (ACS)
Dominican Republic–Central America Free Trade Agreement (DR-CAFTA)	Bolivarian Alternative for the Americas (ALBA)
Gulf Cooperation Council (GCC)	Bay of Bengal Initiative for MultiSectoral Technical and Economic Cooperation (BIMSTEC)
North American Free Trade Agreement (NAFTA)	Community of Sahel-Saharan States (CEN-SAD)
Pacific Accord	Economic Community of West African States (ECOWAS)
South Asia Free Trade Agreement (SAFTA)	Euro-Mediterranean free trade area (EU-MEFTA)
Southern African Development Community (SADC)	Economic Community of Central African States (ECCAS)
Southern Common Market (MERCOSUR)	Free Trade Area of the Americas (FTAA)
Trans-Pacific Strategic Economic Partnership (TPP)	Free Trade Area of the Asia Pacific (FTAAP)
	GUAM Organization for Democracy and Economic Development (GUAM)
	Intergovernmental Authority on Development (IGAD)
	Pacific Agreement on Closer Economic Relations (PACER and PACER Plus)
	People's Trade Treaty of Bolivarian Alternative for the Americas (ALBA)
	Regional Comprehensive Economic Partnership (RCEP) (ASEAN plus 6)
	Shanghai Cooperation Organisation (SCO)
	Transatlantic Trade and Investment Partnership (TTIP)
	Tripartite Free Trade Area (T-FTA)
	China–Japan–South Korea Free Trade Agreement

Source: World Trade Organization (WTO).

transactions between the US and the European Union account for well above 2 billion euros per day and represent over one third of global commercial flows.

Content of negotiations

The final decision to launch negotiations was made immediately following the recommendations

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issued by the US–EU *High Level Working Group on Jobs and Growth (HLWGJG*), created on November 28th, 2011, whose closing report was made public in February 2013. The main conclusions of the report establish that both blocks ought to negotiate on an equal basis to reach agreement on the key aspects (customs and trade facilitation, competence, public enterprises and subsidies, energy and raw materials, SMEs and transparency) that are meant to strengthen the multilateral trade system and the rules that sustain it, as well as to improve access to markets and respect the regulatory commitments within a transatlantic agreement.

Considering that existing tariffs between both blocks are relatively low –4% on average– the focus of the bargaining process is on the reduction of non-tariff barriers that impose productivity losses and add complexity to doing business on both sides of the Atlantic. The main non-tariff barriers are originated in domestic regulations and, what is more complex, in the subnational regulations in each of the markets at national, regional and local levels, which is in itself an added difficulty in the negotiations process. Differences in commercial standards denominations are also abundant and complex.

In this context, below we present the main elements under negotiation in this free trade agreement.

Access to markets

The scale and scope of both the US' and the EU's trade relations place both blocks among the highest positions as measured by most standard indicators. Jointly, they are the two largest economic parties globally, responsible for over 40% of the world's GDP. Thus, the US is the most important trade partner for the EU, measured by the level of exports from the EU to the US - 17% of total EU exports were destined to the US in 2011, the second largest global provider after China. On the other hand, 11% of EU imports came from the US, becoming the third largest provider, just behind China and Russia. The reverse flows show that the EU was the second destination market for US exports in 2011, right after Canada, with which the US shares a free trade area, of which Mexico is also a member, the so-called *North America Free Trade Agreement (NAFTA*), representing 19% of total US exports.

Around 65% of bilateral trade between the US and the EU corresponds to trade in goods, machinery and transportation equipment ranking first and second in trade exchange flows, followed by the chemicals industry. In both sectors, European exports to the US surpass in value imports coming from the US quite significantly[3].

Investment follows a similar pattern, since approximately one third of foreign direct investment (FDI) coming from the EU is destined for the US, ahead of FDI to non-EU Europe (25% of total flows) and Asia (14%). FDI flows reached their peak in 2007 (right before the crisis erupted) whereas the lowest value was in 2010. The reverse flow – FDI from the US to the EU– reached pre-crisis levels by 2010, one of the indicators demonstrating that the US recovery began earlier than the European recovery, which is on-going.

Regulations and non-tariff barriers

Tariffs between both parties are relatively low today, with those protecting the European market being comparatively higher, especially in sectors

[3] The EU exported 104.5 billion euros in machinery and equipment to the US, the reverse flow reaching 70.8 billion euros. European exports to the US in the chemicals industry were over 50% higher in value than US exports to the EU in the same sector.

such as automotive (where tariffs are on average eight times higher than in the US), processed foods (four times) and agriculture, fishery and forestry (twice as high, 18% on average). Thus, the focus of the negotiations lies in the area of non-tariff barriers, which are expected to generate substantial potential impact under the proposed agreement, given their capacity to condition the degree of market integration that is finally achieved. Non-tariff barriers are diverse: administrative procedures, documentation, certifications, safety and health standards, sanitary and phytosanitary measures and technical specifications, among others.

These types of obstacles to international trade are sources of increased costs for business development, as well as of greater difficulties and impediments for companies to access markets. These obstacles are lower in the case of trading services relative to trading goods, with the sector most affected being the aerospace industry. The largest non-tariff barriers from the European perspective are those applied to machinery, whereas the lowest apply to the pharmaceuticals sector. On the other hand, the US shows a complicated network of "behind the border" requirements, especially in the chemicals industry, cosmetics and biotechnology. The opposite happens with electronics, iron, steel and other metallic products.

Shared global trade challenges and opportunities

The dimension and global representativeness of transatlantic commercial relations impose a responsibility on both parties to search for solutions to issues which go beyond the strict definition of bilateral trade, as these will have global spillover effects. This is the case for sensitive issues, such as the protection of intellectual property rights or genetically modified foods, facing divergent positions on both sides. There are numerous issues that will be potentially indirectly affected by the bilateral partnership, such as labour and social conditions, sustainable development of less developed countries and regions and environmental protection, among others.

Expected impact

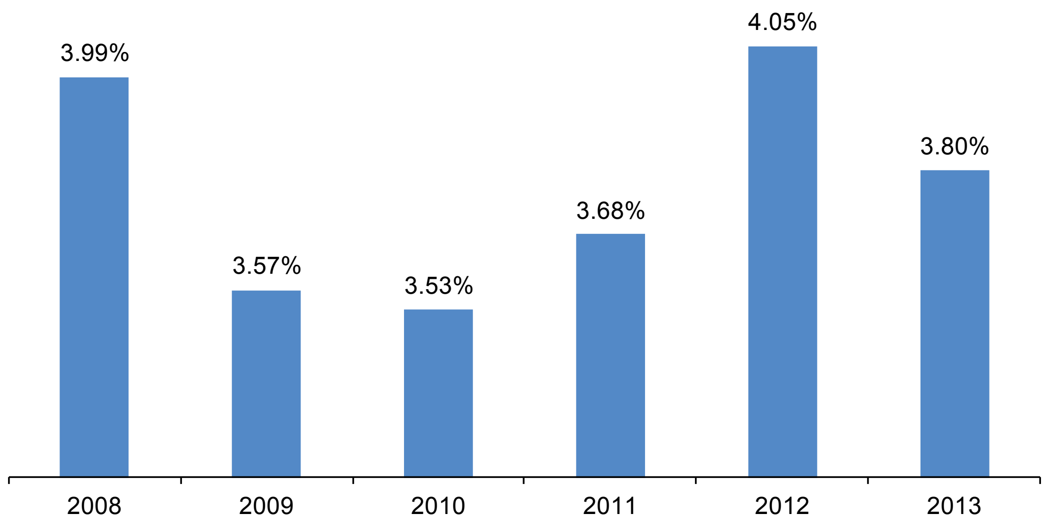
The TTIP, in spite of falling into the category of bilateral free trade agreements, is in fact a multi-bilateral treaty implying one country (the US) and a heterogeneous group of 28 countries, which are all members of the EU. The complexity of commercial treaties negotiations within the EU, like other political issues, lies in the necessary search for a minimum degree of consensus amongst the 28 member countries, or alternatively, to defend the common interests of all of the EU states, which can be significantly divergent in specific aspects.

The European Commission, which has the mandate of the 28 member countries to negotiate the terms and conditions of the agreement, has commissioned a good number of regional impact studies to allow for *ex ante* measurements of the advantages and disadvantages, the benefits and the costs associated to the process, as well as the expected results of an eventual free trade transatlantic zone. Results obtained by these studies – using computerized general equilibrium models – are optimistic. In economic terms, for the EU, the estimated economic gains are somewhere between 68.2 billion and 119 billion euros per year, considering worst and best case scenarios once the treaty fully enters into force, along with the creation of up to one million jobs per year in the EU. From the US perspective, the annual economic gains range between 49.5 billion and 95 billion euros, respectively.

More export-oriented countries – as is the case of Spain – would obtain the greatest welfare gains.

Exhibit 1

Spanish export to the US, as % of total exports



Note: Data for 2013 are for period Jan-Jun 2013.
Source: Datacomex[4].

Additionally, there is an estimated 100 billion euro/year economic gain for the global economy, although there are individual countries that will be negatively affected due to the intensification of the transatlantic trade relations: in the most ambitious scenario, Canada, Australia, Mexico and Japan will suffer the largest welfare losses, whereas in the least ambitious scenario, the most harmed will be some of the BRICs (particularly India and Russia), as well as Argentina and Mexico.

All the impact studies analysed estimate that Spain will be one of the participant countries obtaining the biggest welfare gains as soon as the treaty enters into force. This would be the case both under the most modest scenario, considering elimination of tariff barriers only, as well as in the comprehensive scenario, where agreement would also be reached in most of the non-tariff barriers. In both cases, Spain would fall above the average in terms of expected welfare gains. Under the comprehensive/best case scenario, the

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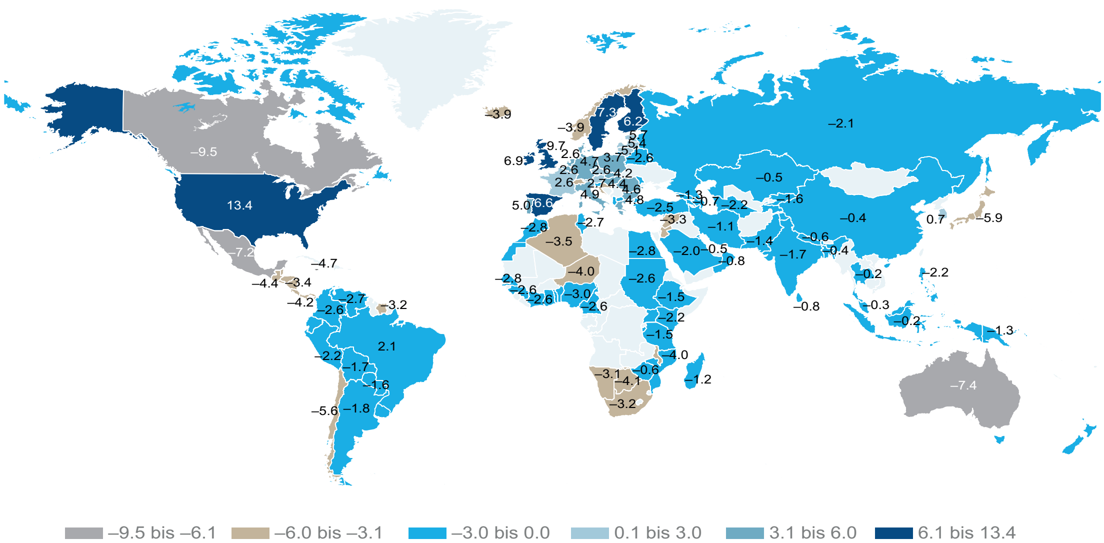
US would be in the top position, followed by the United Kingdom and Sweden, with Spain being fourth in the ranking. Under the modest scenario which solely considers the removal of all tariff barriers on imports –implying a strong reduction in income from custom duties– Spain once again occupies the fourth position, after the US, Greece and the United Kingdom. The agreement would mean welfare gains for Spain in the order of 6.55% and 0.31% of GDP per capita growth under a more ambitious and less ambitious agreement,

[4] Datacomex, at http://datacomex.comercio.es/

Exhibit 2

Welfare gains (% change in GDP per capita). Complete liberalization



Source: Bertelsmann Foundation.

respectively, and the creation of up to 143,000 new jobs.

Any specific country's welfare gains strictly depend on its trade structure, size and geographical position. That said, the most export-oriented countries –as in the case of Spain– would obtain greater welfare gains. In this sense, Spain and the US significantly differ in their export dimension and activities. The share of Spanish exports in GDP is above 32% (World Bank data for 2012) and growing, whereas in the US they represent just 14% of GDP. This structure implies a clear distinction among each county's trade orientation. Spain is strongly export-oriented, while the US depends mainly on its own domestic market. Welfare gains for Spain would come from a substitution effect –importing cheaper US goods instead of more expensive EU goods– rather than a significant growth in Spanish exports to the US, which is not among its top destinations today (Bertelsmann Foundation).

According to some Spanish representatives in the European Commission, despite the overall benefits, there are several key issues under negotiation that require special attention from Spain in order to protect national interests. This is the case for the agricultural sector –which has already proven to be extremely complex to negotiate– where it is foreseen that special sections may be demanded as it has previously occurred in other areas, such as the French cultural industry with regards to the ACTA[5].

Critics and next steps

Issues at the forefront of the first round of negotiations included: access to markets for agricultural and industrial products, procurement rules, investment, energy and raw materials, health and phytosanitary measures, services, intellectual property rights, sustainable development, dispute resolution, competence, custom facilities and

[5] Anti-Counterfeiting Trade Agreement (ACTA), multilateral treaty for the establishment of international standards for compliance with intellectual property rights, approved by the European Commission but later rejected by the European Parliament.

subsidies to public companies. Fifteen working groups are committed to the negotiation of over twenty issues. As stated previously, the second round will be held next October in Brussels.

There are many voices that, even prior to commencement of negotiations, showed their concerns about (a) the development of the negotiations process itself (interests of social and corporate lobbies, lack of transparency in the access to information and even suspicions of international espionage, relevance of public consultations, among others) and (b) the direct and indirect effects resulting from the agreement. Regarding the latter point, one of the issues most debated by civil society is the inevitable reinstatement of the main principles contained in the already rejected ACTA, due to the exclusive interest of the US. Another critique of the comprehensive version of an eventual agreement between the EU and the US lies in the potential damage caused to third countries, together with the questioning of WTO *raison d'être* – multilateralism vs. bilateralism – that has not been able to progress significantly thus far on negotiations under the Doha Round since 2008.

However, many experts believe that the greater agility of bilateral free trade agreements, such as the TTIP, may generate incentives for third countries to strengthen their liberalization efforts at the multilateral level.

We are now involved in a negotiating process between relatively equal parties – more developed countries with solid and reliable institutions able to assume commitments towards executing credible and lasting regulatory reforms, with similar cultural conceptions and a strong social–based citizenship. This guarantees the existence of the necessary foundations to reach plausible results at a faster pace than in other multi-bilateral free trade agreements, in spite of the difficulty of reaching agreement on a great deal of complex issues.

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