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"The Transatlantic Trade and Investment Partnership"

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"The TTIP and consumers"
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All of us here know that the promises of the TTIP are by no scale modest. The agreement is expected to be the cheapest stimulus currently available, a deficit-free boost for growth on both sides of the Atlantic. Concrete gains of up to 0.5% of GDP are expected in Europe and 0.4% in the US by 2027, relative to levels with no TTIP in place.

This desire to liberalize transatlantic trade is not at all new

While the final political decision to carve a comprehensive trade deal was born in February 2013. Efforts have been on-going for more than two decades, with discussions however often fragmented over sectoral issues and political will often lacking. Knowledge gaps in newer regulatory domains and difficulties in mutual understanding further complicated matters. Tariff barriers in agriculture proved to be difficult sticking points. Food safety and environmental standards led to limited success on regulatory convergence.

It is legitimate to ask why, if attempts towards trade cooperation have faltered in the past, should it be different this time around and why it is important more than ever to get it done.

One factor stimulating a timely completion of a comprehensive trade deal is the low-growth environment plaguing both the US and the EU. We need a long term stimulus to growth.

Another is the limited success, or even lack thereof, in the Doha multi-lateral trade round. Along with it comes the hope that a US-EU trade deal would give a new leash of life to trade cooperation.

Beyond these two factors, comes also the changing global world with its added pressure. With emerging markets gaining weight on the world economic stage, the TTIP is also seen as an opportunity to reinvigorate the transatlantic relation and reassert the role on the global scene. The deal would thus help the EU and US regain some of the competitiveness lost relative to China or India.

It is worth asking why the TTIP is important and what are some of the potential gains we expect from it. As any trade agreement, the deal is meant to increase product variety, lower trading costs and thus lead to lower prices, thus positively affecting growth and wellbeing.

It promises to benefit specific sectors and actors in the EU. One such group is that of export-oriented SMEs, which would be able to more easily operate following improved market access conditions and would no longer need to go through a complex process of double approval. The TTIP would also be particularly beneficial to catching-up CEE economies, for whom new technology and know-how coming from the US, an increase in capital flows, more R&D investments and improvements in infrastructure would make important contributions to economic growth.

At the global scale, the deal could give an impetus to deadlocked multilateral trade negotiations and provide a blueprint for future bilateral trade deals.

A closer trade relation is in the interest of both transatlantic partners. The EU and the US still share a considerable part of the world economy and are mutually important from an economic perspective. On a daily basis, 1.3billion EUR worth of goods and services cross the Atlantic, amounting to one third of total global goods trade and 40% of services trade. The transatlantic economy creates up to 4.1trillion EUR in commercial sales each year and provides more than 15 million jobs. US and EU economic activity accounts for 50% of world GDP and for 41% of purchasing power.

Admittedly, as shown by the numbers, transatlantic trade is already significant. Tariffs are also already relatively low, recording on average between 3-4%. Exceptions also exist however, including tariffs in agriculture, textiles, apparel and footwear. So while the bulk of tariffs are low, the small share of remaining high barriers still bears the potential to lead to considerable gains, precisely due to the significant volume of EU-US trade.

Going beyond trade in goods, which accounts for 20% of transatlantic trade, services trade liberalisation promises to provide even more gains. Services account for more than 70% of US and EU GDP. Moreover, the transatlantic actors represent each other's main commercial partners and growth markets in terms of services trade and foreign direct investment.

Having said that, the bulk of the gains are expected to come from non-tariff barriers (NTBs), which promise to become the signature of the TTIP. While it is true that previous trade cooperation initiatives have also dealt with domestic regulation, they have looked at it only in a narrow, rather limited way. The ambitions for regulatory convergence are much higher today.

NTBs represent measures which amount to discriminatory regulatory barriers to market access. They are often in place in order to protect consumers, worker health or the environment, or to enforce minimum quality standards. While NTBs might not be directly related to cross-border activities, they indirectly impact trade and investment. NTBs can result in higher costs for firms when it comes to doing business, they can also restrict market access.

Market access is mostly limited due to traditional NTBs, such as import quotas. Costs on the other hand are most likely raised when exports are conditional on a reconfiguration of products. NTBs appear to be highest for food and beverage products. Financial services NTBs also rank highly.

NTBs constitute however tricky elements of the negotiation process for a number of reasons.

On the one hand, it is difficult to measure them and no well-established methodology exists for estimating NTBs consistently across countries and sectors in a harmonized way. Moreover, while the gains from NTB elimination can be substantial, the effects of NTB removal are often seen only with a lag which can take anything between 10-

20 years. Finally, removing NTBs is harder than reducing tariffs and removing all NTBs might require constitutional, legislative or technical changes.

Two traditional approaches to address NTBs in the context of the TTIP include harmonization and mutual recognition. Harmonization involves an alignment of regulations to a single best practice. This could be based on international standards from a standard-setting body, or involve some form of coordination among the trading partners. Mutual recognition can be based on mutual Recognition agreements, or on the acknowledgement of regulatory equivalence. Such agreements can approve testing and certification processes of other countries and deem them acceptable for allowing sale in the importing country. Equivalence can acknowledge that different technical regulations can still achieve the same objectives.

Additionally, regulatory cooperation councils (RCCs) can also help lower NTBs. Such councils involve a pragmatic approach to dealing with regulatory divergence and involve also a regular input from private interests. While RCCs do not bridge all regulatory divergences, they can help find practical solutions to resolvable problems in sectors which matter most for the trading relationship. One existing example is the US-Canada Regulatory Cooperation Council. The latter follows the principle that a non-legalistic way can help find modest solutions to specific regulatory divergence problems. This platform also enhanced the legitimacy of trade relations between the two partners, by putting the debate in the open and allowing stakeholders to voice their concerns. Karel de Gucht, the EU Commissioner for trade, has already voiced this idea in the context of the TTIP by proposing the creation of a new Regulatory Cooperation Council, which brings together the heads of the most important EU and US regulatory agencies. The council would be tasked with monitoring and implementing commitments already made and with considering new priorities for regulatory cooperation.

The potential setup of an RCC brings to the fore the issue of legitimacy, which is pivotal to the success of the negotiations.

Negotiations up until now have certainly been characterized by an unprecedented dose of transparency. While respecting the confidentiality of the negotiations, the Commission has already, and will continue to reach out to trade associations, consumer organisations, industry as well as to other civil society representatives, to gauge their views on the TTIP.

Moreover, the Commission has also set up an advisory group of experts for the TTIP. Interests represented by this group include environmental, health, consumer and business sectors, with each sector given the chance to offer advice to the EU trade negotiators on the areas being negotiated.

The Commission's recent decision to consult the European public on provisions related to investor-to-state dispute settlement (ISDS) further reflects the Commission's desire to make negotiations as transparent as possible.
In the broader picture of the negotiations, the Commission is also keeping the European Parliament and the Council well informed. When the negotiations will come to an end, the final deal will need to be approved by the directly elected representative of the people, the European Parliament and, by the representative of Member States' governments, the Council.

While the TTIP certainly comes at the right time, with a generous dose of transparency and promises to make significant headway in the realm of NTBs reduction, many uncertainties still plague TTIP discussions and could lead to a slowdown in the pace of negotiations. They include consumer worries, unknowns linked to the inclusion of financial services and data issues into the deal, worries over agricultural disagreements, as well as spillover effects onto third countries and potentially within the EU.

Consumer groups have been particularly active in voicing their concerns surrounding the TTIP. Worries are often expressed over the potential lowering of standards in Europe when it comes to food quality and safety, emerging technologies, data protection and privacy, IP rights, drugs and medical devices, energy and climate change. Consumers are also worried that lobbies representing businesses have more of a say during the negotiations than they will and would end up carving a deal in line with business interests.

The worries over the lowering of standards are particularly justified in case of food safety. This is due to the fact that philosophies between the EU and the US are radically divergent on this topic. The EU bans genetically modified foods, hormone-treated beef, chlorine-washed poultry etc, while in the US GMOs are seen as a solution for dealing with the global challenge of food security.

In the case of medical devices, the US has stricter safety requirements, as well as a stronger pre- and post-marketing surveillance system. Concerning privacy, in the US there is no statutory recognition of privacy, while in the EU, this is a fundamental right.

These are certainly legitimate worries which need to be addressed. If addressed correctly though, the promises of the TTIP greatly outweigh its potential costs.

We must certainly remember at this point that consumers also stand to gain a lot from the TTIP. Potential gains include an increased product variety and lower trading costs, which will lead to lower consumer prices. The TTIP could also offer an opportunity to address shortcomings in current consumer protection frameworks, especially when it comes to exchange of data and evidence on safety hazards with products, chemicals, food and pharmaceuticals.

TTIP could also be an opportunity to think about food security and sustainability and set some international standards on these topics. While it is true that EU and US agricultural policies have to a certain extent converged over the last two decades (reduction in governmental intervention, allowing market forces to operate more freely), important differences in mentality between the EU and US still exist. US policies still aim to reduce negative externalities of agriculture (soil erosion, water pollution through compensation farmers for taking land out of production), with the EU still focused on expanding the positive externalities of farming. These will need to be overcome if the EU and US are to set such international standards.

There is no doubt that ultimately a consumer friendly TTIP will have to uphold the highest standards of consumer protection, while allowing trading partners to put in place stronger protection measures (so there is some autonomy for action). Moreover, concrete steps forward can be made with care even in the more contentious fields. In the case of food safety for instance, the TTIP could set up animal identification systems meant to trace food to its origin, discuss the phase out of antibiotics for non-therapeutic use in animals, and establish a Transatlantic food safety alert notification. It can further strengthen food standards by allowing trading partners to establish food safety, nutrition and labelling standards, which are stronger than the harmonized norm and that meet the standards of consumer protection considerations.

Let me say a few words on financial services. This issue has been widely discussed in the context of the TTIP, yet no conclusion has been reached on whether these services will be included in the final agreement.

There are certainly clear benefits to having financial services on the trade agenda. These include increased competition, product choice, a strengthening of consumer and investor protection on both sides of the Atlantic, and an improvement in prudential regulation.

Europe is more pro including financial services than the US side. The US reluctance is mostly explained in virtue of the fact they do not want to re-open the Dodd-Frank act or the Volcker rule. Some concerns come also due to provisions made by existing EU legislation. For instance, the EU has watered down a number of specifications made by the Basel III agreement in CRDIV (eg. while a key minimum common equity capital or leverage ratio is binding in the US, the latter is not binding in the EU).

A further worry, making financial services off-limits for the Americans, is the risk that in the midst of negotiations, a trade-off might be made between financial sector provisions and another trade topic, leading to concessions in financial services. The US wants to stir clear of such trade-offs.

If cooperation of some form is to be achieved nonetheless, then this will most likely involve some form of equivalence. The EU side has already outlined its vision of this cooperation. In an information non-paper drafted at the end of January, the Commission expresses its view on a cooperation on financial services which involves the joint and timely implementation of internationally-agreed standards for regulation and supervision, mutual consultations ahead of new financial measures with potential effects on the transatlantic relation, a joint analysis of current rules with a view to seeing whether they impose unnecessary trade barriers and research into whether the other jurisdiction's rule are equivalent in outcomes.

Data protection is another topic which suffers from the same ambiguity in treatment as financial services. A main sticking point which makes it difficult to envisage a common stance on the topic is given by on-going negotiations on both sides of the Atlantic on different data-protection packages. These legislations could in turn lead to conflicting legal regimes. Moreover, the PRISM conflict has further reduced the hopes for a successful transatlantic cooperation on data issues.

Interests still clash considerably when it comes to agriculture. They concern US worries about EU food-safety regulations which interfere with US exports. US farm interests are also keen on the EU abandoning its precautionary approach to risk management, adhering instead more strictly to sound science. US soybean and corn farmers are also concerned about the EU's slow approval of GM crops. Grounds for cooperation may be more limited here. Hormone meat remains banned in the EU and existing EU laws will not be infringed for the sake of cooperation in the context of the TTIP.

While the bulk of research forecasting the effects of the TTIP clearly highlights considerable GDP gains for the EU and the US, more caution is warranted when considering potential TTIP effects on third countries, and even within the EU.

In theory, changing terms of trade between the EU and US can also impact the terms of trade of other countries. When tariffs are lowered, trade diversion and trade creation occur, due to relative as well as due to absolute changes in trading costs. Negative spillovers on third countries may thus arise.

Current macroeconomic studies indeed echo these concerns and reveal that countries such as Canada, Mexico and Turkey are likely to be negatively affected by the TTIP. Also particularly vulnerable is the situation of developing countries in Africa. Asian economies, with the exception of Japan, will also feel the negative effects of the agreement.

The sheer scope of the countries potentially adversely affected by the TTIP warrants a consideration of possible solutions. One option would be to include the traditional trading partners of the two major economies into the negotiations or give them an early opportunity to enter into similar agreements with the trading partners. To ensure that trading partners who are important to the US or the EU are kept in the loop, negotiations could promote a track II process which permits input from both the US's and EU's most deeply integrated partners.

Another option would be to provide compensation to the losers from the TTIP (using some of the welfare gains from the TTIP) as well as making some concessions in multilateral negotiations. This would be particularly necessary in the case of African economies.

Finally, the EU and US could adopt a mutual recognition policy which applies to third countries with flexible rules of origin.

Not only third countries may however be negatively impacted by the TTIP. Some adverse effects could also be felt in terms of intra-EU trade (these would still co-exist with a substantial growth of transatlantic trade). TTIP will affect intra-EU trade because trade within the EU is now barrier free, while trade with the US still faces NTBs and tariffs. The opening up of trade with the US will thus affect intra-European trade, which previously enjoyed a preferential status. More specifically, macroeconomic findings revealed that German trade with the Greece, Ireland, Italy, Portugal and Spain will fall after the TTIP is put in place. This is compensated however to some extent by an increase in trade between the aforementioned countries and the US, as well as between Germany and the US.

Potential intra-EU trade losses should not however obscure the clear wins that TTIP could bring along. Looking at the EU, in particular smaller countries, such as the Baltic states, are likely to record substantial gains. Also, countries with lower per capita income stand out as winners. The TTIP thus acts as a booster of convergence in Europe, increasing trade benefits for countries with lower per capita income, such as Romania, more than for those with higher incomes, such as Luxembourg. Ultimately, all EU member states benefit from trade liberalization, the extent to which they gain however depends on the real trade structure of individual countries, on their size and geographical position.

As talks move forwards over the coming months, negotiators will need to strive to overcome existing bottlenecks and try to find common ground on topics over which differences remain. Divergences should not stand in the way of a vital stimulus, which both the US and the EU so urgently need.

Policymakers will also have to bear in mind the fact that the window of opportunity for reaching a deal is relatively small, extending from now until mid-2015, as the US nears its 2016 presidential elections. Negotiators will need to be efficient and through at the same time.