The Transatlantic Trade and Investment Partnership (TTIP)

Can the Planned Agreement Deliver on Its Promises?

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At a glance

The Transatlantic Trade and Investment Partnership (TTIP) currently being negotiated between the EU and the United States is a matter of political and public controversy. More objective discussion requires that both the opportunities and the risks be evaluated transparently and properly. It is clear that any positive growth and employment effects should not be overestimated and the risks of adverse effects on prosperity should not be underestimated. TTIP will be able to meet the challenges of economic globalisation in the twenty-first century only if it is understood as more than merely a deregulation and liberalisation project, and rather as a significant contribution to the economic, environmental and social organisation of the international trade system.

Since July 2013 the EU and the United States have been negotiating the so-called Transatlantic Trade and Investment Partnership (TTIP). By eliminating tariff and non-tariff barriers (especially customs duties and various regulations, standards and norms) to the fullest extent possible the idea is to facilitate market access for goods and services and in so doing to create the biggest free trade zone between the two most important economic areas in the world. Two further key elements of the planned agreement are a comprehensive investment protection agreement, including so-called »Investor-to-State Dispute Settlement« (ISDS), to promote mutual cross-border investment, and a Regulatory Cooperation Council to enable permanent closer transatlantic cooperation on regulatory issues that may arise. TTIP is supposed to be the most comprehensive and far-reaching regional free trade agreement to date, and one that will come to exert a dominant influence on the further shaping of international trade. But how should we evaluate the opportunities and risks of TTIP?[1]

TTIP: Forecast Opportunities

The aim of TTIP is to bring about positive effects on growth, employment and prosperity on both sides of the Atlantic. Indeed, it is possible that the increasing international division of labour and specialisation could lower companies' production costs and thus consumer prices, while raising productivity and thus the incomes of private households. Further positive effects on prosperity could arise from increased foreign direct investments or from the availability of a wider range of products and even entirely new ones. The most often cited studies on TTIP forecast – depending on the extent of trade liberalisation – very positive effects on growth, employment and prosperity in both the EU and the United States. For example, the study carried out by the Centre for Economic Policy Research (CEPR) for the EU comes up with an additional increase in real GDP of almost 0.5 per cent by 2027 (almost 0.4 per cent for the United States). The study conducted by the ifo Institute and the Bertelsmann Foundation estimates an additional increase in real per capita GDP of almost 5 per cent for

1. On this see, for example, Werner Raza et al.: ASSESS_TTIP: Assessing the Claimed Benefits of the Transatlantic Trade and Investment Partnership (TTIP), ÖFSE Final Report, Vienna 2014; Fritz Breuss: TTIP und ihre Auswirkungen auf Österreich: Ein kritischer Literaturüberblick, WIFO Working Papers No. 468, Vienna 2014; AK Wien: Stellungnahme zum Entwurf des Erstberichts der Handels-Nachhaltigkeitsfolgenabschätzung der Transatlantic Trade and Investment Partnership (TTIP), AK Position Paper, Vienna 2014; Stephan Beck and Christoph Scherrer: Das transatlantische Handels- und Investitionsabkommen (TTIP) zwischen der EU und den USA, Hans Böckler Stiftung, Working Paper No. 303, Düsseldorf 2014.

the EU (and almost 13.4 per cent for the United States) over the next 10 to 20 years.[2]

When interpreting these, at first sight, impressive findings, however, it is crucial to note that the predicted prosperity boost is a one-off effect and, what is more, will be realised only gradually over an extended period. For example, for the EU an additional positive growth effect of around 0.5 per cent is predicted by 2027, which represents a relatively modest additional average growth of 0.04 percentage points per year (0.03 percentage points per year for the United States). The employment gains predicted in some studies are similarly modest on closer examination.[3] This indicates that TTIP, despite what is often claimed, does not constitute an economic stimulus programme that could solve the current eurozone crisis in short order.

The forecasts are also strongly dependent on the respective models used and their underlying – sometimes questionable – assumptions, as a result of which, apart from anything else, they deviate sharply. The claimed positive growth and employment effects were, furthermore, derived mainly from a very ambitious liberalisation scenario, whose eventual realisation is questionable to say the least. The likelihood of less ambitious outcomes therefore requires much lower estimates of the calculated values arising from the lowering of tariff and non-tariff barriers. Indeed, experiences with earlier free trade agreements, such those that accompanied the establishment of the European single market or the North American free trade zone between the United States, Canada and Mexico (NAFTA) suggest that predicted positive effects on prosperity are often overestimated.

In contrast to what simple economic theories and models come up with it must also be noted that increasing liberalisation of trade by no means guarantees that all population groups in the participating countries will benefit equally from the prosperity gains that, in principle, may be attained. The extent to which private households may benefit depends, among other things, on whether companies are willing, or are forced by competitive pressures, to pass on cost savings and productivity rises due to the elimination of trade barriers to consumers in the form of price cuts or to employees in the form of higher wages. As the unequal distribution, to date, of the gains from economic globalisation shows, the insufficient regulation of goods, labour and capital markets, as well as the inadequate political organisation of international trade relations, prevent equal participation of all population groups in prosperity gains.

TTIP: Possible Risks

Because tariff barriers in transatlantic trade between the EU and the United States are, on average, already very low – the average tariff rate in the EU stands at 5.2 per cent and in the United States at 3.5 per cent – the focus of the planned agreement is less the elimination of tariff barriers to trade than the harmonisation and removal of non-tariff barriers (NTBs). In the widely cited TTIP studies thus around 80 per cent of the predicted prosperity gains derive from the harmonisation, mutual recognition or elimination of regulations, standards and norms.

The main challenge here is to distinguish unnecessary regulations from regulations put in place for a good reason, namely to achieve and promote important social policy goals, for example, with regard to health, environmental and consumer protection, not to mention workers' rights. For this reason it is a drawback of the TTIP studies that every form of regulation is regarded, by definition, as a non-tariff barrier (NTB) to trade and thus as detrimental to the economy and prosperity, and that their abolition would lead automatically to productivity and prosperity gains. This standpoint, which acknowledges only trade policy and quantitative economic considerations, harbours the danger that the overall social benefits of regulations will be overlooked. Abolition of such regulations could entail substantial social, environmental and ultimately also economic costs and thus be accompanied by considerable losses in prosperity for broad population groups that could easily outstrip the prosperity gains forecast in the TTIP studies.

On top of all this, in many areas the regulatory philosophies in the EU and in the United States are totally different. For example, in the EU the precautionary principle prevails

2. See Joseph Francois et al.: Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment, CEPR Final Project Report on behalf of the European Commission, London 2013; Gabriel Felbermayr et al.: Die Transatlantische Handels- und Investitionspartnerschaft (THIP): Wem nutzt ein transatlantisches Freihandelsabkommen? Part 1: Makroökonomische Effekte, study by the ifo-Institute on behalf of the Bertelsmann-Stiftung, Gütersloh 2013.

3. See Sabine Stephan: TTIP – Das Märchen vom Wachstums- und Beschäftigungsmotor, Friedrich-Ebert-Stiftung, WISO direkt, Bonn 2014.

with regard to consumer and environmental protection, under which products (for example, chemicals and foodstuffs) or production processes (for example, fracking) are permitted only if it has been proved scientifically that they are harmless to human beings and nature in general and that there are no other safety concerns. In the United States, by contrast, the opposite is the case. Products or production processes are permitted without particular restrictions until the existence of risks has been proved scientifically. It is not least because of this that standards differ so much between the EU and the United States with regard to labelling requirements and liability. A transatlantic harmonisation of standards and norms is thus unlikely in many areas. Mutual recognition of different regulatory standards is no solution here because, for example, consumers would no longer be able to rely on their accustomed uniform level of safety due to the increasing lack of transparency, which would imply a loss of prosperity. There is even a danger that, in the absence of a level playing field, competitive pressures would drive down regulatory standards and levels of social protection to the lowest common denominator on the two sides of the Atlantic in pursuit of lower production costs.

Finally, it is also important to note that TTIP, as a major bilateral trade policy project, could exacerbate the fragmentation of the international trade system that has been increasing for years and thus not only further weaken the World Trade Organization (WTO), but also further hamper its efforts to achieve a multilateral free trade agreement from which all trading nations would benefit. Particularly worrying is the prospect that TTIP would dilute the principle of »the most favourable outcome for all«, anchored in the multilateral WTO system, and according to which, in principle, no member state may discriminate against its trading partners. Countries not participating in TTIP could thus feel excluded and resort to protectionist measures, not least because, according to the findings of a number of TTIP studies, they face the prospect of not inconsiderable losses in terms of growth, employment and prosperity as a consequence of trade diversion effects. The costs associated with trade conflicts could very easily surpass any of the gains predicted in the mentioned TTIP studies.

What TTIP Is Supposed to Achieve – and What Not

If the TTIP negotiations, despite all the odds, are brought to a conclusion and the emerging treaty satisfies WTO guidelines, even so the participants should be clear that, as a bilateral or regional free trade agreement it at best represents only a »second-best« solution to the organisation of the international trade system. TTIP should thus be open to the accession of other, previously non-participating states. At the same time, however, scope should be left for, in particular, developing countries to incubate young, economically and socially sensitive economic branches, at least for a period of time, by means of tariffs and other regulatory measures until they become internationally competitive. This, after all, is exactly what many now highly developed industrialised countries did in the course of their own economic development. Within the framework of transatlantic trade, however, although the further elimination of existing tariffs in specific economic areas could achieve substantial trade-creation effects, only small effects are to be expected in terms of prosperity at the macroeconomic level as a result. In the course of eliminating non-tariff obstacles to trade, considerable cost savings can result from harmonising and mutually recognising (particularly such) dissimilar standards and regulations that serve identical goals, particularly an identical level of safety and protection. For instance, for industrial (intermediate) products dual certification would no longer be required. But even in this example the resulting gains in prosperity to society in general will be limited.

In many other policy areas, reaching agreement on the respective highest level of regulation or safeguards attained in a given country to date would be a major achievement, as would an obligation to ratify international conventions and minimum standards rapidly and to implement them bindingly (for example, the International Labour Office's core labour standards). If this is not a short-term option, hasty compromises should not be made or barter deals agreed because this is inevitably accompanied by falling standards and thus prosperity losses. In these instances it would be more advisable to work towards closer transatlantic harmony over the longer term. Thus closer regulatory cooperation, for example, by establishing a regulatory council, as envisaged in the TTIP, would be very welcome. However, it must be ensured that all interest groups and civil society actors are represented equally in such a body and that impact assessment studies of planned deregulation, liberalisation or harmonisation measures should analyse not only their trade creation effects, but also their influence on, for example, environmental, consumer, health and labour issues. At the same time, it must be ensured that, after transparent processes of analysis and consultation, the ultimate decision-making power should lie solely with democratically elected parliaments. When it comes to legislation, all countries must also continue to have the right to exceed agreed regulatory standards in pursuit of policy aims that are in the public interest.

On this basis, in the realm of public services and so-called services of general interest a negative list approach (which requires that discriminatory measures affecting all sectors included in an agreement be liberalised unless specific measures are set out in a list of reservations), as well as stand-still clauses (which forbid the contracting parties from adding restrictions to the freedom to provide services) and ratchet clauses (a common feature of negative listing that locks in future liberalisation forever) must be rejected because they improperly restrict the ability of democratically elected politicians henceforth to act in the public interest, for example, by restoring public services to municipal ownership and control when their privatisation turns out to have been a mistake. The same applies to the planned »Investor-to-State Dispute Settlement« because this would bestow on foreign private companies or investors a (unilateral) special right or privilege to sue democratic states with developed legal systems for damages before international courts of arbitration directly, bypassing ordinary national jurisdiction, if those companies or investors take the view that legal changes or new regulations would reduce their (expected) profits. Merely by threatening to sue, foreign companies or investors could halt or at least dilute legislation aimed at increasing the prosperity of the society as a whole, but running counter to particular business interests.

Overall, TTIP could meet the challenges posed by increasing economic globalisation in the twenty-first century only if it is understood not merely as a knee-jerk deregulation and liberalisation project, but rather as an opportunity to develop the international trade system in an economically, environmentally and socially sustainable way. Only thus would it stand a chance of benefitting broad population groups with prosperity gains that are eminently achievable through the international division of labour. The key importance of high labour, social, health, environmental and consumer protection standards, as well as of strong workers' rights and high-quality public services for developing prosperity for society as a whole must thus not be neglected within the framework of the TTIP negotiations. In order to ensure that this does not happen more transparency is indispensable, together with broader parliamentary and public debates, not only with regard to TTIP, but also with regard to CETA (Comprehensive Economic and Trade Agreement), because the planned trade and investment agreement between the EU and Canada can anticipate TTIP in broad areas.

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