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Briefing Paper 2/2013

Bridging the Atlantic: The State of Free Trade Negotiations between
the U.S. and EU

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May 2013

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Overview

On 13 February 2013, the U.S. and EU, announced their intention to launch negotiations on the Transatlantic Trade and Investment Partnership (TTIP), a potentially landmark Free Trade Agreement (FTA) between the world's biggest economies. The announcement resulted from recommendations by the United States-European Union High Level Working Group on Jobs and Growth (HLWG) – a commission tasked with identifying “policies and measures to increase U.S.-EU trade and investment to support mutually beneficial job creation, economic growth, and international competitiveness.”

Leaders and trade officials on both sides of the Atlantic are enthusiastic about the prospect of a trade agreement between the world's largest economies. However, this latest round of trade talks begin against a background of several failed efforts in the past 20 years. Most notably, the Doha Round of World Trade Organization negotiations stalled in 2008 as a result of highly visible disagreements between the U.S. and EU and within Europe itself regarding many of the same issues to be negotiated in TTIP.

Faced with a global economic crisis, the landscape of global trade has changed. Countries are focusing on smaller trade blocs rather than large multilateral agreements. Given the current economic and political climate, the sentiment is that now is the best time to respond to the changing conditions and set trade standards that will positively impact the future of world commerce. The breakthrough agreement would be an opportunity to spark both sluggish economies while increasing competitiveness in the global marketplace.

Anticipated Results

The final HLWG report highlights the importance of the economic relationship between the U.S. and the EU as well as the widespread effects of a comprehensive agreement for both blocs and the global economy. Still, there will be many obstacles in contentious areas such as agriculture, intellectual property and regulation standardization. The two economies account for 30 % of world trade and represent nearly half of the world GDP despite comprising just 10 % of the world's population.

While tariffs between the two economies are quite low, a study by the U.S. Chamber of Commerce determined that a reduction in tariffs and other red tape would increase U.S.-EU trade by more than \$110 billion and boost the new bloc's GDP by nearly \$180 billion within five years.



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The biggest key to the success of the FTA lies in non-tariff barriers (NTBs), which are projected to account for as much as 80 % of the potential economic gains of the agreement. Cutting bureaucracy-related costs especially in agriculture, intellectual property and finance will bring enormous economic savings. In the long-term, reducing such barriers could annually boost GDP in the EU and U.S. by 0.5 % and 0.4 %, respectively; translating to \$110 billion of added annual income to the EU economy and \$80 billion of added annual income to the U.S. economy.

A recent survey of stakeholders by the Atlantic Council and Bertelsmann Foundation found that 55 % of respondents believe a moderate agreement, removing many barriers but avoiding the most contentious areas to be the most likely outcome, while 37 % of respondents believe a comprehensive agreement will be realized and only 8 % believe an agreement will not be completed.

Stakeholders

United States

On the same day President Obama announced the White House's desire to launch comprehensive FTA negotiations with the EU, members of the Senate Finance Committee set high expectations for the agreement in a letter to then United States Trade Representative (USTR) Ron Kirk. The letter called for the reduction of export barriers for American agricultural products to the EU, the protection of intellectual property rights for the purpose of harboring future innovations, and the harmonization of regulations across industries including aviation and automotives. These objectives were similarly reiterated at a March 19 Senate Finance Committee hearing and a mid-May U.S. House Ways and Means Subcommittee on Trade hearing. The U.S. hopes to begin negotiations in June, following a 90-day consultation with Congress.

Agriculture

The U.S. private and public sectors have emphasized that the scope of the agriculture negotiations must be comprehensive and that the FTA should effectively address longtime barriers to U.S. farm products, potentially requiring many European countries to overcome their aversion to importing U.S. genetically modified crops. The U.S. wants greater access to Europe's economy in the agricultural sector but EU restrictions on genetically modified organisms (GMOs) and hormones in meats, for example, represent a significant barrier to accessing the market. At the March 19 Senate hearing, U.S. Senator Baucus was vocal about his concern for Europe's "non-science based regulations," on agriculture as an impediment to free trade.



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The Atlantic Council stakeholder survey found, “substantial recognition of market access for GMOs and agricultural products treated with hormones” as the most difficult and complex issue to negotiate. The success of the agreement may hinge on the result of agriculture negotiations.

Standardization of Regulations

Congress is calling for regulatory compliance and harmonization while promoting transparency and openness in regulatory processes. Stronger regulatory cooperation is not meant to weaken regulations, but to eliminate unnecessary trade barriers.

The motor vehicle and parts sector is an essential aspect of the standardization. Differing standards mean that vehicles cannot be exported across the Atlantic without complying with additional adjustments and checks. The result is that domestic car manufacturers have a significant advantage in their own markets over imported vehicles, discouraging car companies from expanding across the Atlantic.

The Atlantic Council survey found, “significant regulatory process convergence across multiple sectors” to be the most important and second most difficult issue in the successful negotiation of a comprehensive agreement.

Intellectual Property

Negotiating intellectual property rights will prove to be an essential aspect of the FTA talks. IP supports more than 40 million jobs and contributes \$5.06 trillion to U.S. gross domestic product.

Intellectual Property was an important topic at the Senate Finance Committee hearing where Senator Hatch called for the FTA to include the “highest levels” of intellectual property rights protection. Similar sentiments were echoed by other Senators seeking to protect IP in the pharmaceutical and biologics industries. Significant pressure from public groups seeking to exclude IP from TTIP may dramatically influence trade talks.

Data Protection

The U.S. wants to negotiate and liberalize data flow in TTIP but some EU members insist data privacy reform should be a separate negotiation fearing difficulty in resolving differences may hinder talks. The U.S. is more tolerant of data collected by search engines and social networks whereas the EU seeks to limit data collection for personal privacy. The U.S. finds data protection and transmission laws in the EU to be too severe, while EU officials believe that U.S. laws are inconsistent and insufficient.



European Union

The EU team, led by Trade Commissioner Karel De Gucht, faces the difficult task of balancing the diverse needs of its 27 members. EU leaders are concerned that limiting the scope of the negotiation before sitting at the table with the U.S. will hamper negotiations, but France, with the support of some EU ministers, is calling for trade officials to uphold a “cultural exception” which excludes audiovisual goods from some trade deals. Despite the obstacles EU leaders are optimistic an EU-wide negotiating agreement can be reached prior to the June G8 summit, which officials hope may serve as the starting point for the negotiating process.

Agriculture

In previous attempts at trade agreements, the U.S. and EU have struggled to see eye to eye on agriculture, especially related to hormone-treated beef and genetically modified crops as EU restrictions on genetically modified food products are much stricter than in the U.S. The EU has generally excluded beef, dairy products and some fruits and vegetables from FTAs. The U.S. restricts beef imports from the EU fearing Bovine Spongiform Encephalopathy (BSE), lifting the ban would finally allow widespread access for EU beef in the U.S. market.

Last year, 93 % of soybeans and 95 % of beets grown in the U.S. came from genetically modified seed. These modified food products allow U.S. farmers to increase output at a lower cost a huge competitive advantage over their European counterparts who do not employ such growth methods.

Despite the differences, the EU has made concessions over the past year to demonstrate their commitment to forming a comprehensive agreement with the U.S., raising quotas on U.S. exports of hormone-free beef and dropping longstanding opposition to beef cleansing methods.

Audiovisual and Culture

A vast majority of the 198 amendments to the negotiation mandate were rejected; however one amendment spearheaded by French Trade Minister Nicole Bricq calling for the exclusion of the cultural and audiovisual services was adopted. France has an extensive state subsidy system to keep French films and television flourishing and protected from U.S. media imports. Last week, Minister Bricq threatened to reject the deal if it included the audiovisual sector.

The concern at this early stage is that excluding certain sectors, such as audio-visual will prompt the U.S. to reject other EU demands or begin removing other sectors from the negotiating table.



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Investment and Public Procurement

The EU hopes to enhance business opportunities with full access to public procurement opportunities that current U.S. regulations currently prohibit. The U.S. “Buy American” provision dating back to 2009 has attracted significant criticism from European business by limiting bidding on steel and iron based public projects strictly to U.S. producers. The EU believes this policy has harmed European companies by prohibiting them from public procurement. European leaders hope that “Buy transatlantic” might replace the American-centric version, to emphasize the depth and integration of the partnership.

Big Business

TTIP will certainly mean big money for big business . A Bloomberg study determined U.S. exporters pay \$6.4 billion pay in tariffs on exports to the EU, while Europeans shipping goods to the U.S. pay \$4.1 billion. The elimination of tariffs would eliminate more than \$10 billion in duties each year.

In the auto industry, companies such as Ford are hoping they will no longer have to engineer separate seat belts, defrosters various other parts for individual markets, according to Stephen Biegun, the company’s vice-president for intergovernmental affairs.

Internet and Social Media companies have much to gain or lose in negotiations. Large internet companies such as Facebook and Google view data protection regulation as a threat to their bottom line. The significant differences in regulations imposed by the EU and U.S. authorities regarding data collection and privacy have caused legal issues in Europe for such companies. A comprehensive agreement addressing data privacy could liberalize existing European policy or restructure public data privacy within the U.S.

Public Organizations

Resistance from consumer and environmental groups, health experts, and other organizations will be a barrier to completing trade talks. The groups are concerned that the agreement will give multinational corporations the political power of sovereign nations and undermine existing regulatory practices.

In response to the announcement launching TTIP negotiations, the Public Citizen's Access to Medicines campaign presented the White House with a letter from 47 nonprofits group objecting to the proposed intellectual property standards of an agreement with Europe. Recent success in striking down internet regulation bills SOPA and PIPA in the U.S. and ACTA in Europe have demonstrated the important role public groups will play during



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this summer's negotiations. The ability of government leaders to balance big business and consumer groups without hindering negotiations will prove pivotal as negotiations press onward this summer.

Both blocs believe a comprehensive agreement would benefit consumers in addition to big business, potentially translating to an additional \$700 in disposable income annually for a family of 4 in the EU and \$840 for families in the U.S. without spending a single stimulus dollar.

The Road to Free Trade

This is a crucial time for the future of global trade; the economies are still pushing through the Great Recession and emerging powers are rapidly approaching the West. A comprehensive agreement would increase world trade income by almost \$128 billion. *The Economist* writes, "[TTIP would] liberalize a third of global trade and anchor a transatlantic economic model favoring openness, free markets, free peoples and the rule of law over the closed, managed vision of state capitalism."

European Leaders hope to obtain a unified negotiating stance ahead of the G8 summit in June. Both sides are eager to push the deal through by October 2014 ahead of potential political change. European leaders face elections in 2014 and the U.S. Congressional mid-term elections are held the same year. This allows trade officials just one year to finalize a deal. By comparison U.S. deals with Colombia and South Korea required half a decade to complete.

The challenges for negotiating the agreement have been magnified by internal conflict, particularly pre-negotiation exclusions. One option is to exclude the highly contentious areas, notably agriculture, audiovisual, and intellectual property, but these sectors hold the most significant prospects for promoting economic growth.

Despite the obstacles, the U.S. and EU believe a comprehensive agreement is achievable. As negotiations begin, both sides hope to overcome issues that have plagued past free trade talks in the interest of adapting to the ever-evolving global landscape, fostering economic growth, and promoting job security in a new economic era.



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ASSOCIATION FOR INTERNATIONAL AFFAIRS (AMO)

Association for International Affairs (AMO) is a preeminent independent think-tank in the Czech Republic in the field of foreign policy. Since 1997, the mission of AMO has been to contribute to a deeper understanding of international affairs through a broad range of educational and research activities. Today, AMO represents a unique and transparent platform in which academics, business people, policy makers, diplomats, the media and NGO's can interact in an open and impartial environment.

In order to achieve its goals AMO strives to:

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- arrange international conferences, expert seminars, roundtables, public debates;
- organize educational projects;
- present critical assessment and comments on current events for local and international press;
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- support the interest in international relations among broad public;
- cooperate with like-minded local and international institutions.

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