The Political Economy of Transatlantic Free Trade

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1. Introduction

On July 8, 2013 leaders of the United States (US) and the European Union (EU) initiated talks on a Transatlantic Trade and Investment Partnership (T-TIP) that will include a free trade agreement covering (in principle) all goods, substantial liberalization of service trade and a reduction of barriers toward investment. Much of the emphasis will be on regulatory trade impediments, and the hope is that there will be enhanced coordination of actions between the EU and the US in the multilateral trade arena. This Working Paper is intended to provide some background to the T-TIP initiative, to discuss the political and economic context in which the talks will take place and to suggest some of the political economy issues that the movement towards transatlantic free trade will encounter.

Much of the current discussion of global economic issues focuses on Asia and particularly on the emergence of China as a new economic superpower. However, the importance of the transatlantic partners in world economic activity should not be overlooked. The US and the EU between them account for 54 percent of global Gross Domestic Product (GDP) and 30 percent of world trade. Transatlantic trade in goods and services was worth $636 billion in 2011. The current value of

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Transatlantic investments has been estimated at $3.7 trillion. Annual outflows from the EU and US account for about 75 percent of global Foreign Direct Investment (FDI) (GMF and ECIPE, 2012, Chase, 2011). However important US relations with China may be, the European partnership remains dominant. In 2011 US FDI inflows from one medium-size EU member state, Belgium, totaled $10.3 billion, whereas those from China stood at only $0.6 billion; similarly US FDI outflows to Belgium amounted to $6.2 billion in 2011, whereas those to China were negligible in that year (OECD, 2013).

Traditional trade barriers impeding transatlantic trade are relatively low. Average tariffs on imports into the US stand at 4.7 percent: the corresponding average tariff for the EU is 6.4 percent. However, these averages hide significant tariff peaks in sensitive products (agriculture, textiles, beverages, etc.). As a consequence one can expect somewhat conventional trade negotiations for these sectors, with exporters seeking to gain access into protected markets and sheltered sectors summoning all their political weight to counter the thrust. The dilemma will be whether to exclude sensitive sectors so as to avoid the talks getting bogged down or to hope that lofty ambitions will carry enough weight to overcome sector resistance. At this point only audiovisual services have been excluded from the negotiations, at the request of France. Audiovisual services, however, are relatively unimportant in transatlantic trade relations, and the French focus on this largely symbolic issue may actually suggest that, with this victory, France will be more lenient in more important matters.

More important as a driving force behind the T-TIP are significant non-tariff barriers that persist in several sectors. Many of these have to do with different regulatory environments, adding costs to trade across the Atlantic. The hope is that

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1 Tariff levels for agriculture and foodstuffs (HS 1-24) average 7.8 percent in the US and 10.1 percent in the EU. Tariff peaks for the US include tobacco, sugar, peanuts, dairy products, beef, cotton and horticultural goods. High tariffs in the EU include those for dairy products, live animals, tobacco, and grain.

2 Audiovisual services are presently excluded from the negotiating mandate the EU Commission received from the Council. The Commission hopes they will be included in the future.
any convergence between US and EU regulatory approaches will be reflected in regulations adopted by other countries. Thus the transatlantic partners will *de facto* be negotiating on global regulatory approaches. And, in keeping with the growing importance of service trade and the complex links between trade and investment, the T-TIP will hope to break new ground by including agreements that go beyond the limited scope of the current multilateral rules in these areas.

This working paper addresses the question of why the issue of transatlantic free trade has risen to the top of the political agenda at this time, in the light of the ineffectual attempts to achieve progress in previous decades. We then outline the items that are being proposed for inclusion in the negotiation agenda. A fourth section addresses directly the political economy issues. The political economy of the transatlantic trade agenda has at its core the range of interests and interest groups that will become involved in the process of discussion, if not negotiation, of the T-TIP. This highlights the significance of the decision-making structure on each side of the Atlantic that will play a crucial role in both the talks themselves and the ratification of any tentative agreement. A final section poses the question “when might we expect an outcome?” Negotiations need deadlines, but also require time to construct compromises. Too hasty a conclusion could yield an agreement with little substance: too many missed deadlines could exhaust the patience of the body politic.

2. Why is a free trade agreement on the agenda now?

For the past few years the US has been seeking a way to achieve growth in an era of constrained government finance and subdued consumer spending. An expanding overseas market for US goods has been seen as a major part in the plan for the recovery from the “great recession” of 2007-08. The Obama administration has therefore been eager to find a trade strategy that will be acceptable to business and yet not scare labor and environmental groups. An ambitious trade agreement with the EU fits well with that objective. Despite the highly intertwined nature of the
Atlantic business environment (or perhaps because of it) US companies are still concerned about costly regulatory hurdles that are seen to inhibit competition and competitiveness. Labor and environmental groups look at Europe as a place where public standards are even more developed than in the US, leading to the possibility of enhancing rather than weakening such standards in the US.

Across the Atlantic similar economic arguments prevail. The EU is trying to regain a measure of economic growth after stagnation for five years. The cohesion of the EU itself is at risk if growth continues to be elusive. There are some similarities with the “single market” initiative in the late 1980s, where completion of the original plan for free internal trade in goods, services, capital and labor was seen as the best way forward for a sluggish European economy. That the single market was largely achieved and broadly accepted as a positive development gives hope to those who would like to extend many of its provisions across the Atlantic. Indeed, on political grounds, a transatlantic trade and investment pact could act as a boost to cohesion for the EU, diverting attention away from the troubles of the eurocrisis and the dissatisfaction of the United Kingdom (UK) with the way in which the EU is developing.

The subject of a transatlantic Free-Trade Agreement (FTA) has been raised on several occasions in the past. Prior to 2008, in an era with higher rates of growth, the EU and US considered the potential gains too minor. Now any extra growth, however minimal, is considered worth the effort. And, given the size of transatlantic trade, even small percentage changes in trade flows and costs can bring substantial benefits.

3 One such initiative was promoted by the Council for Foreign Relations in 1995 (Stokes, 1996). This had support in Canada and in Germany but was seen in the US at the time to be “anti-Japanese” in flavor.

4 One study that was done to test the economic case for a US-EU FTA is reported in Erixon and Bauer (2010). Gains were estimated as between $46 and $69 billion for the EU and between $135 and $181 billion for the US. This includes the “static” gains from resource reallocation and the “dynamic” gains from increased productivity and the reduction of trade impediments to competition. Trade could expand by about 17 percent in each direction under these conditions.
Reaching trade agreements comes at a political cost largely from the threat of disruption to less competitive industries. These political costs and economic threats to specific industries are particularly noticeable when negotiating with large emerging countries and those that are seen to have low labor costs. In the case of a US-EU trade agreement these threats are arguably smaller than they are in the negotiation of FTAs with low cost countries: few areas of US business are “afraid” of competition with Europe, and American labor costs are seen in Europe as being quite high. As a result of the relatively low political costs Congressional objections to the idea of a free trade area with Europe have been muted, and the European Parliament is broadly supportive of an agreement with the US.

The second main reason why talk of a transatlantic FTA has particular saliency at present has to do with the parlous state of the multilateral trade system, particularly as it involves developing the rule system negotiated in the Uruguay Round and further cutting trade barriers.\(^5\) In the past the view has been widespread that a US-EU trade deal would undermine the World Trade Organization (WTO), indicating that bilateralism had been found to be more attractive than multilateralism in shaping trade rules. But the multilateral process has not delivered any significant agreement in fifteen years. The WTO Doha Round has stalled and though trade ministers should be able to harvest a few small pieces of the agenda at the next Ministerial in Bali in December 2013, other parts of the Doha Development Agenda may be quietly dropped.

On the one hand, the willingness of countries to “bypass” the WTO and negotiate FTAs among themselves can be seen as a way to continue the process of trade liberalization in goods and services in other ways. Both the EU and the US have searched for willing partners prepared to grant market access on a reciprocal basis through bilateral free trade agreements. But on the other hand a US-EU trade agreement is seen by some as a way of re-energizing the Multilateral Trade System

\(^5\) The other aspects of the multilateral trade system, the resolution of conflicts and the improvement of transparency, are currently unaffected by the paralysis of the negotiations in the Doha Round.
The ability to tackle items that have not been on the WTO agenda is seen as a potential contribution to the MTS.\textsuperscript{6} In particular, the T-TIP talks could deal effectively with “new” trade issues: competition, supply chain integrity, and investment.\textsuperscript{7} WTO members working together in plurilateral groups (“coalitions of the willing”) to negotiate trade rules is sometimes seen as an alternative to full negotiating rounds: other countries could sign up later, or the plurilateral agreements could be directly translated to multilateral level. An EU-US agreement on a particular trade issue may well set a strong precedent for later multilateral rules.

At another level, this rejuvenation of the MTS could also help to “rescue” the US-EU control over WTO agenda. The growing influence of the large emerging countries, particularly India and China with their ambivalence toward western capitalism, is changing the traditional presumptions about governments and trade.\textsuperscript{8} The transatlantic partners have generally shared the long-term vision of a more liberal market based on the restraint of government interference with trade for other than carefully specified reasons. Whether all of the emerging countries share (or will continue to share) this view can be questioned. A strong EU-US position on fundamental aspects of the trade system could be a useful insurance against a shift in the focus away from the “embedded liberalism” of the MTS.

Adding to the interaction between the multilateral and the regional/bilateral trade systems is the activity of both the US and the EU in negotiating trade agreements with Asian countries. The US has been active in promoting the Trans-Pacific Partnership (TPP) talks among eleven countries (Australia, New Zealand, Chile, . . .

\textsuperscript{6} The contribution of regional and bilateral agreements as “test beds” for subsequent multilateral action is apparent from the North-American Free Trade Agreement (NAFTA) agreement that introduced several aspects of trade rules that were incorporated into the Uruguay Round.

\textsuperscript{7} This “new” agenda is similar to that in the TPP (see below). The Doha Round agenda however dates from 2001 (and that agenda reflects the “unfinished business” of the Uruguay Round of 1995.)

\textsuperscript{8} Of the other ‘BRICs’, Brazil appears at present to be a believer in the benefits of open markets. Russia is too recent a WTO member (with an export profile tilted in favor of oil and minerals) to have shown any clear tendencies.
Brunei, Mexico, Canada, Peru, Singapore, Malaysia, Vietnam and the US). This has been advertised as a “high quality” trade agreement that would lead quickly to a broad free trade zone covering much of the Pacific Rim. Japan has now agreed to join the talks, significantly raising the economic importance of the TPP if complicating its timetable.

To some the TPP is seen as a way of consolidating policy cohesion among the non-China Asia/Pacific economies. But China is not anxious to be isolated in this way. China is in the process of implementing FTAs with many Asian countries, and is actively supporting a Regional Comprehensive Economic Partnership (RCEP) which would include the ten members of Association of South-East Asian Nations (ASEAN) together with Japan, Korea, and China (“ASEAN + 3”), along with Australia, New Zealand and India. Such a trade agreement would pose a significant challenge to the idea of a US-dominated Pacific Rim market.

In these terms, an EU-US link can be seen as one missing piece in this new “super-regional” trade architecture. The EU certainly does not want to be an outsider in the Asian marketplace, and has already taken steps to negotiate trade agreements with several ASEAN countries as well as with India. Though a direct place in the TPP for the EU seems unlikely, the same effect could be had by individual agreements with each of the TPP signatories.

Regional and bilateral trade agreements have their own dynamic. If one country gains preferred access into another market the tendency is for competitors to follow so as not to be left at a disadvantage. Thus the EU has signed agreements with Mexico, Chile and Korea to match the access granted by these countries to the US by trade agreements. A EU-Canada FTA has been under negotiation and is almost ready to be signed: the US does not want Canada to have better access to EU markets than it does itself. If the EU were to complete its talks with MERCOSUR then the US would be left at a disadvantage in some major South American markets (notably Brazil and Argentina).
One might query why such competitive trade policies are relevant in an era when tariffs on manufacturing products are already low. In low margin goods a small change in tariffs can have an important influence on trade flows. But perhaps more important is that “first movers” into a market can set up trade arrangements that may give persisting benefits even when the degree of preference is eroded.

3. What is being proposed?

The current push for a transatlantic trade deal emerged from a US-EU Summit meeting in November 2011. The Summit decided to set up a High-Level Working Group on Jobs and Growth, under the co-chairmanship of the US Trade Representative and the EU Commissioner for Trade. The direction in which the Working Group was headed was indicated in their Interim Report in June 2012 (HLWG on Jobs and Growth, 2012) and confirmed in their final report released in February 2013 (HLWG on Jobs and Growth, 2013). The recommendation was to initiate negotiations on a Transatlantic Trade and Investment Partnership (T-TIP).

Though the politically sensitive label of a Transatlantic Free Trade Area was neatly avoided, the core of the T-TIP would indeed contain such a free trade agreement.\(^9\)

As described by the Working Group, the T-TIP is intended to be “a comprehensive agreement that addresses a broad range of bilateral trade and investment issues, including regulatory issues, and contributes to the development of global rules.” This would include “substantially eliminating existing barriers to trade and investment.” It would achieve “ambitious” outcomes in market access; regulatory costs and non-tariff barriers; and rules, principles, and new modes of cooperation to address shared global trade challenges and opportunities.

The agenda mirrors recent trade agreements that tend to include more than just trade in goods and services, extending to investment, intellectual property

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\(^9\) The phrase “partnership” has crept into the trade agreement vocabulary relatively recently, (as used in Hamilton, 2012) but it seems to be appropriate for large country agreements that aim above the mere removal of impediments to trade to encompass strategic coalitions in the trade sphere.
protection, and sometimes to government procurement. The T-TIP would be an example of such a broad agreement. These are now easier for the EU to negotiate: since under the Lisbon treaty, trade in services and FDI have also become among the exclusive competencies of the EU (in addition to trade in goods).  

The three components of the suggested agenda include market access, regulatory issues and the coordination of positions on global trade topics.

**Market Access:**

- Free bilateral trade in goods (substantial elimination of tariffs upon entry into force, and a phasing out of all but the most sensitive tariffs in a short time frame).
- Bind the highest level of liberalization in services that each side has achieved in trade agreement to date, while seeking to achieve new market access.
- Investment liberalization and protection provisions based on highest level of liberalization achieved by both sides so far.
- Substantially improved access to government procurement opportunities at all levels of government.

**Regulatory Issues:**

- New and innovative approaches to reduce impact on trade and investment of non-tariff barriers.
- Reduce unnecessary costs and administrative delays stemming from regulations.
- Identify ways to prevent non-tariff barriers from limiting US and EU firms from competing globally.
- Promote greater compatibility of standards (including harmonization, equivalence, and mutual recognition where appropriate).

**Rules for Shared Global Challenges:**

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10 See Articles 3 and 207 of the Treaty on the Functioning of the European Union.
• Promote high level of intellectual property protection and explore (a limited number) of significant IPR issues of interest to either side.

• Establish high level of protection for environment and workers.

• Tackle global issues including trade facilitation; competition policy; state-owned enterprises; localization barriers to trade; raw materials and energy; small- and medium-sized enterprises; and transparency.

Each of these areas pose the essential dilemma of the T-TIP, between quick and shallow negotiations with a harvest of low-hanging fruit, or deep and drawn-out discussions dealing seriously with underlying differences but with less prospect of success. Substantial elimination of tariffs on transatlantic trade could be quickly achieved if the definition of “most sensitive tariffs” is sufficiently generous. But the economic gains come from increased trade in goods currently protected by high tariffs. In addition, under the WTO rules for free trade areas tariffs on “substantially all trade” must be removed. So sectors that feel threatened by tariff elimination will have an incentive to spin out the talks and hope for an exemption.

With respect to the liberalization of trade in services, it may seem that the objective of binding the “highest level of liberalization” achieved by either party in other trade agreements is modest. But if the EU were to grant the US the same access as they give to service providers in the European Free Trade Association (EFTA) countries (through the European Economic Area agreement) and if the EU gets the same access as do Canada and Mexico under NAFTA then some growth in service trade can be envisaged. However, no “single market for services” is envisaged, though some additional market access could be included. However, both the EU and the US have been keen to see further liberalization of services in the Doha Round, though offers on the table in that context are not very ambitious. As a result of this, the US

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11 This concept of “most favored partner” for services could be extended to other aspects of bilateral trade negotiations. It would certainly be important if it included the TPP, where the EU could be assured that Pacific Rim countries were not getting better access into the US market. However, it could also dampen enthusiasm for bilateral agreements in the future, as preferences would be diluted by extension to third parties.
and the EU are promoting an International Services Agreement (ISA) in the margins of the WTO. So the main action in this important aspect of trade policy is likely to remain in the plurilateral and multilateral sphere of negotiations.

The concept of meeting the highest level of liberalization achieved in other agreements may also seem less than ambitious for investment. But the US has generally gone further in including investment provisions in FTAs than has the EU. One key comparison is between the investment provisions in the Korea-US FTA (KORUS) and the Korea-EU FTA (KOREU). In the former there is a chapter on investment with extensive provisions; in the latter there is no investment chapter and no provisions that go beyond existing Bilateral Investment and Trade Agreements (BITs) with individual EU members.\footnote{Schott and Cimino (2013) examine the two bilaterals (KORUS and KOREU) for differences in treatment of a range of trade topics and suggest that a reconciliation of the two would provide a constructive starting point for the T-TIP.} \footnote{The BITs that were concluded between member states and non-EU countries prior to the Lisbon Treaty remain in effect until they are replaced by EU-wide agreements. Since the Lisbon Treaty individual member states can negotiate new BITs only under strict conditions. The Commission needs to authorize the negotiations and its approval is required for the final agreement as well.}

Access to government procurement opportunities on either side of the Atlantic could be a major part of the benefits that stem from the T-TIP. Both parties are signatories to the plurilateral Government Procurement Agreement (GPA) that attempts to apply the principle of non-discrimination to purchases by public agencies.\footnote{The GPA dates back to the 1979 Tokyo Round, though revised in the Uruguay Round. It has more recently been the subject of negotiations to expand its coverage. Political agreement has been reached on these revisions, but there is the hope that more countries can be persuaded to join.} But the GPA is limited in scope and its operation often offset by other legislation. In particular, both sides would welcome the introduction of more substantive rules on sub-federal or sub-national government agencies. Current issues in this area relate to the proliferation of “Buy America” clauses in contract with the States as well as at the Federal level.

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At present both sides of the Atlantic are concerned about the effectiveness of current trade rules governing State-Owned Enterprises (SOEs). One particular concern is the role of subsidies to such enterprises, along with state-supported loans. This is an area where an agreement on rules governing transatlantic trade could be expanded to include other countries and be a model for the multilateral system.

With respect to the regulatory issues the Task Force report stated the objective as finding “new and innovative ways” to reduce non-tariff barriers to trade and investment. This phrase may conceal a lack of agreement on which approach to take. One approach would be to tackle differences in regulatory philosophy, particularly in such areas as the role of science in regulations where public opinion is not fully convinced by research conclusions. The use of the “precautionary principle” in EU legislation has generally been regarded in the US as a sign of weakness, allowing public opinion to intrude on matters that can be addressed by scientific enquiry. But any direct assault on these differences in the context of the TTIP is likely to be counterproductive, hardening opinions on both sides of the Atlantic and reducing the chances of success. So the Task Force modestly calls for the reduction of “unnecessary costs and administrative delays” arising from regulations. No-one could be against that, nor could they argue against the consequent aim of improving the competitiveness of US and EU companies in third markets. And the key questions of harmonization of standards and the mutual recognition of each other’s standards are addressed with caution: greater compatibility in standards is to be “promoted” “where appropriate”.

Perhaps the most elusive and enigmatic part of the agenda as outlined by the Working Group is that of establishing ways of meeting “shared global challenges.” The aim of increasing a high level of protection for Intellectual Property (IP) sidesteps the main problems that have limited the expansion of the WTO Trade-

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15 The value of removing non-tariff barriers to trade is notoriously hard to quantify. One such study (ECORYS, 2009) finds considerable economic benefits from the harmonization of such barriers in the transatlantic marketplace.
Related aspects of IP rights (TRIPS) Agreement governing IP protection. The EU has been pushing for greater protection for geographical names associated with wine and foods. The US has resisted this approach, but has been active in calling for further protection of other forms of IP protection, notably for pharmaceuticals. So agreement on the need to increase IP protection does not mean that the specifics will be easily agreed.

Similarly the goal of establishing a high level of protection for workers and the environment sounds laudable but may raise expectations for some breakthrough in the T-TIP agreement. Serious differences remain that will not be readily resolved. With respect to labor, the easiest approach is to take the relatively low level of ambition now found in the bilateral pacts of the US and the EU. On the topic of environmental rules as they relate to trade, even less comity is to be expected. The EU has moved farther down the road towards embedding environmental goals in domestic regulations, and in particular in addressing greenhouse gas emissions.

The concept of agreeing on ways to tackle global issues that are not yet on the multilateral agenda is also easier said than done. Each of the issues mentioned involves other major trade partners, and an attempt at a united US-EU front could even hinder the adoption of constructive multilateral rules.

4. Who is interested and why?

Although trade and investment flows across the Atlantic make the US and EU the largest “market” in the world, transatlantic trade has been growing slowly in recent years and problems still arise. Businesses on both sides of the Atlantic seem enthusiastic about the idea of lubricating such trade. As a large part of the trade is among different parts of the same companies, any tariff is a hindrance to commerce and an accounting inconvenience. Moreover, much of the transatlantic trade is in intermediate goods and productive inputs, suggesting that even import-competing

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16 Since 2006, US-EU trade has been growing at a rate of 3.8 percent, a significantly lower rate than trade with many other parts of the world (Schott and Cimino, 2013).
firms may see benefits in tariff elimination. Trade in both directions for similar products is also a feature of the transatlantic market. This would suggest that competition within the region could be enhanced. And many industries see this as a way of improving competitiveness to meet new competitors in Asia. Hence the political economy of the T-TIP will be driven in large part by organized business interests for whom reducing transactions costs is a major goal.17

Not surprisingly business leaders on both sides of the Atlantic have thrown their support behind the T-TIP. Doug Oberhelman, Chairman and CEO of Caterpillar, and Chair of the International Engagement Committee of Business Roundtable, an association of chief executive officers of leading US companies, stated on July 8, 2013: “This is a historic and exciting opportunity, and we applaud the US and EU governments for working together to launch these negotiations.”18 Similarly, Adrian van den Hoven, Deputy Director General of BusinessEurope, the principal European business association, declared on April 18, 2013: “The start of trade and investment negotiations is a historic moment in the transatlantic relationship. This future trade deal will provide a fantastic opportunity to integrate our markets, to boost competitiveness and to generate the jobs and growth that we need to turn our economies around. This will happen if we are ambitious and determined.”19

Business associations on both sides of the Atlantic went a step further and also took actions to assure the successful conclusions of the negotiations. In particular, they formed business alliances in support of the T-TIP: the US Business Coalition for Transatlantic Trade and the European Business Alliance for a T-TIP.

Likewise, political leaders have expressed their support for the T-TIP. President Barack Obama went as far as to mention it in his State of the Union Address on February 12, 2013: “I’m announcing that we will launch talks on a comprehensive

17 One constituency normally skeptical about trade agreements is the general public. In this case, the concept of free trade across the Atlantic does not seem to have met the same degree of negative reaction (Stokes, 2013).
Transatlantic Trade and Investment Partnership with the European Union -- because trade that is fair and free across the Atlantic supports millions of good-paying American jobs.”

Commission President Jose Manuel Barroso stated on June 17, 2013: “The current economic climate requires us to join forces and to do more with less. More importantly, in doing so, we will remain strong global players who set the standards and regulations for the 21st century.”

German Chancellor Angela Merkel in turn declared on June 19, 2013: “Far beyond the fact that the economies on both sides of the Atlantic will benefit from this agreement, it would also be a commitment to a global world in which common values and also common economic activities can be shaped more effectively.”

Regulatory coherence is often more important than tariffs in expanding trade. In spite of many attempts, existing transatlantic institutions (e.g. the Transatlantic Economic Council) do not seem to be capable of solving these issues. Each regulation carries with it a constituency, including those who support its aims, those who bear the costs, and those that administer it. The political economy of regulations is in many ways more complex than that of tariffs and other direct border measures. Even the most obscure of regulatory differences can seem intractable in the context of trade negotiations.

It is clear from the care with which the T-TIP was prepared and launched that major politicians have given their blessing to the venture. Government departments that are involved in trade talks have a fresh agenda and set of options to weigh. Trade

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23 The Transatlantic Economic Council was established in 2007 at an EU-US Summit. The TEC includes a Transatlantic Legislators Dialog, A Transatlantic Consumer Dialog, and a Transatlantic Business Dialog. None of these bodies has had striking success in solving transatlantic trade issues involving regulations (Barker, 2012). Earlier initiatives included the New Transatlantic Agenda promoted by President Clinton in 1995, but this was sidetracked by more pressing foreign policy issues (Frost, 1998).
ministers see the opportunity to counterbalance emerging economies (BRICs) and retain US-EU leadership of trade system. T-TIP would provide an opportunity to coordinate policy between the US and the EU with respect to FTAs with other countries, and on key WTO issues. Thus the negotiations will at least start with high expectations that this will be a “game-changer” for global trade relations.24

Clearly there will be some sectors that are more directly affected than others. The agricultural and food sectors will present the most difficult problems, but also the biggest gains. Tariffs on agricultural and food products are still high in EU and in US, and almost prohibitive for some products. Free bilateral trade will therefore cause some disruption. There will be a request for long transition periods and safeguards for sensitive products (Trachtenberg, 2012). The political economy of trade negotiations will be on display as interest groups, from sugar and dairy to fruits and vegetables will play their cards.

Not all agricultural interests will be defensive. Agricultural businesses in the US want a number of long-standing regulatory issues with the EU resolved. These include the use of growth additives in livestock (hormones and ractopamine); methods of pathogen reduction in slaughter-houses (PRTs, including chlorine wash); approval of genetically modified varieties of corn, soybeans, etc. (Grueff, 2013). Some of these issues are susceptible to improvement: better communication between agencies would help. Material progress in some of the livestock treatment disputes would indicate to the US that the EU is serious in its intentions. But the high degree of Non-Governmental Organization (NGO) interest in such issues as Genetically Modified Organism (GMO) approval and labeling is likely to make any real progress difficult on this score.

Not all the offensive interests are on one side of the Atlantic. Agricultural and food producers in the EU would like better access to the US market, specifically for dairy

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24 Certainly when considered in tandem with the TPP talks the architecture of world trade rules would undergo its most significant development since the Uruguay Round in 1995. And if the RCEP that would include China, Japan, Korea, Australia, New Zealand, India and the ten countries of ASEAN came into being the three overlapping trade agreements would effectively cover most of world trade.
products and meats. As EU milk quotas are abolished the need to find overseas markets for cheeses and other high-value dairy products will increase. But the EU would like more protection for Geographical Indications (GIs) in the US, for cheese and for specialty meats (as well as wines) and that issue has led to stalemate in the context of the TRIPS negotiations. Both sides will need some “victories” in the regulatory area to demonstrate the value of the outcome, and to give EU foods greater IP protection in the US could provide one such gain.

One problem with agricultural issues in the T-TIP negotiations is going to be to manage the interface with the Doha Round. Typically it has been accepted that bilateral trade agreements are not the best place for the discussion of subsidy issues: such subsidies cannot easily be removed on intra-FTA trade alone. But the US and the EU have been the major providers of subsidies to farmers and aid to the export of farm products. Export subsidies and restrictions could be included in the agenda, as a bilateral agreement to end these practices (including commodity-based food aid and export credit guarantees) as internal budget pressures will almost certainly remove them in any case. Negotiations on domestic support programs are more problematic: there is still the assumption that these are valuable “bargaining chips” in the Doha Round that can be traded for access to emerging country markets. So the opportunity for a substantial lock-in of current (low) levels of market price support could well be missed.

The political economy of the impact of a potential US-EU agreement plays out in other countries as well (though such external considerations may not weigh heavily in the internal transatlantic debate). Other countries will follow the progress of the T-TIP talks with interest. Those that already have preferential access to EU or US market may lose some preference. Moreover, they may come under pressure to

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25 FTAs have been signed between the EU and twelve countries that also have FTAs with the US. These are in North America, Latin America, Central America and in East and Southeast Asia. Specifically, these twelve countries are Canada (the EU-Canada FTA is not quite complete), Mexico, the Central American Free Trade Area (Guatemala, Honduras, Costa Rica, El Salvador and Nicaragua), Colombia, Peru, Chile, Singapore and Korea.
accept modifications to their FTAs to harmonize them with the US and EU terms. For those countries with an FTA with one but not both of the transatlantic partners the possible new market access could be significant. This will depend to a large extent on the rules of origin adopted in the T-TIP.\textsuperscript{26} The impact on countries with no preferred access into either market is likely to be limited, as Most Favored Nation (MFN) tariffs are already low in US and EU. Trade diversion always a problem with FTAs but in this case the danger is relatively small, as few high-cost industries will be protected from competition.\textsuperscript{27}

The convergence (or at least greater coherence) of regulatory approaches and procedures will be of particular interest to other countries. Resolving some of the more contentious issues, where the EU and the US have put together informal coalitions of WTO members to support their positions, could be a major step in reducing the costs of regulatory fragmentation. This will probably be to the advantage of other countries, such as those in the Caribbean and Africa, who would no longer have to choose which (US or EU) set of standards to adopt. But the question would still remain as to whether large emerging economies will choose to follow suit or to plot their own path through the regulatory maze.

\section*{5. When might we expect an outcome?}

Negotiations started on July 8, and the intention is to complete them by the end of 2014. Trade Ministers have indicated that they want to complete the talks “on one

\textsuperscript{26} The rules of origin are designed to identify goods as qualifying for free access under the FTA, and are often specified by the value added in the exporting partner. The more flexible rules of origin allow “cumulation” of value added in any partner to an FTA with the exporting country. Generous cumulation rules would have important impacts on trade patterns. In particular, the US FTAs with countries such as Morocco, the Dominican Republic, Australia and Panama, as well as the EU’s FTAs with the Caribbean, North Africa and Sub-Saharan Africa, as well as with the EFTA countries, Turkey and Syria, could form the basis for more integrated supply chains.

\textsuperscript{27} Once again, agricultural markets are likely to be an exception. Unless an EU-MERCOSUR FTA can be completed there will be some trade diversion away from low cost suppliers in Latin America.
tank of gas”. This is optimistic: it is easier to start negotiations than to finish them. However, a protracted negotiation (say five years) would be counterproductive and probably add little of value after the first few months. Moreover, it may be difficult to keep up high-level political interest in project.

Too much haste could however be a problem in itself. An agreement in the first year, for example, would probably not go far enough (just low hanging fruit) to be worthwhile. But politically the second year of talks (2014/15) may be more difficult in terms of the political calendar. There will be European Parliament (EP) elections in May 2014 and the appointments of new Commission and European Council Presidents will occur later that year. In the US there will be midterm elections in the US Congress in November 2014.

And then there is the question of approval by the respective legislatures. The Commission negotiates on behalf of the EU based on a mandate given to it by the member states in the Council. The Commission stays in close contact with the Council during negotiations, through the Trade Policy Committee, and the EP. The EP plays a more important role now than it did in the past, as a result of the Lisbon Treaty. The EP could prove less accommodating than the Commission or Council in trade talks

In the US the Administration will seek Trade Promotion Authority (TPA) in order to negotiate credibly with the EU and others. Under TPA the President can negotiate trade agreements and submit them to Congress for up-or-down votes with no possibility of amendment or filibuster. There seems to be Congressional support to grant the President TPA. Congress would have a say in the negotiations, as a part of the TPA process, though the US Administration has more flexibility than does the EU Commission. However, key members of Congress are kept informed during the talks. Hence US negotiators should know when they have a package that will pass through Congress.

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\[28\] Meanwhile the negotiations for the T-TIP, as well as those for the TPP, are being conducted under the assumption that the President will indeed obtain TPA.
The progress of the T-TIP through the negotiation and the approval process could clearly be de-railed by other events. Current enthusiasm by business leaders and politicians could wane as compromises become necessary. Public opinion could turn sour if the emerging agreement was seen to result in a weakening of cherished regulations. But at this time the chances of success look reasonable for the conclusion of an extensive agreement that would benefit business on both sides of the Atlantic.
Bibliography


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