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The Controversy over the Free-Trade Agreement TTIP

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A short name is causing a lasting debate: TTIP [tiːtɪp]. Ever since the beginning of the negotiations in the summer of 2013, media coverage of the planned Transatlantic Trade and Investment Partnership between the EU and the US has contributed to a critical debate on the topic. In doing so, difficulties have arisen in differentiating factually substantiated arguments from one-sided statements.

TTIP is a planned agreement on free trade and investment between the US and the EU, whose details are currently under negotiation. Advocates expect a stimulus on economic growth, new jobs and a strengthening of the transatlantic community of values. Critics point to the lack of transparency in negotiations; they fear an erosion of standards and consumer protection, and see a potential loss of national sovereignty.

Global significance of TTIP

As part of the EU-US summit at the end of 2011, a *High Level Working Group on Jobs and Growth* was established in order to work out the best possible strategy for strengthening bilateral trade relations (cf. EU-Commission, 2013). The group reached the conclusion that an agreement on a transatlantic trade and investment partnership would be most beneficial to both sides. Accordingly, the first round of negotiations was held in July 2013 in Washington D.C.; a successful conclusion of the negotiations was initially envisaged for late 2014.

Should the TTIP negotiations be successful, the EU and the US will form the world's largest free-trade area with an economic strength of about 34 billion US-dollars. This is equal to almost half of the global economic performance (fig. 1), even though both regions combined represent only 12% of the world population (fig. 2). The EU and the US account for about one fourth of global commodity trade, and an even higher share of trade in services and the stock of foreign direct investments (cf. Mildner and Schmucker, 2013). However, given the rise of emerging nations like China, India, Brazil and Russia, the importance of the EU and the US in the world economy and global trade is gradually diminishing.

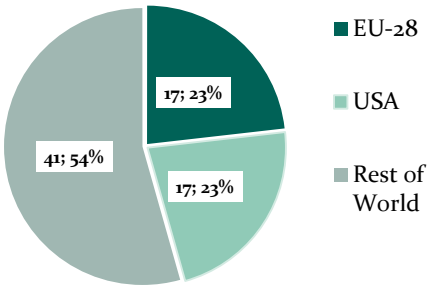


Figure 1: GDP in 2013, in tn. US dollar.

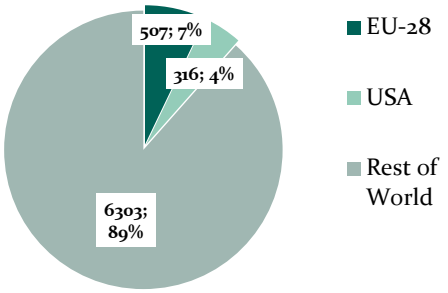


Figure 2: Population in 2013 in mn.

Data Source: *World Bank, 2014*

Motivations for TTIP

Incentives for international trade lie mostly in economic advantages, in the sense that consumers can benefit from lower prices and a larger product variety. Market integration enables participating countries to specialize in particular goods or services. Country specializations result not only from different worker potential and the amount of capital stock; the existence of natural resources and differences in technological progress; but also from different social preferences and standards. Moreover, free market access allows for the usage of scale effects and leads to more efficient resource utilization. Accordingly, Erixon (2013) also stresses, as one of the EU's main ambitions in the TTIP negotiations, the wish for economic growth in the aftermath of the recent financial- and debt crises. In this respect, a free trade agreement signifies a comparatively cheap structural reform.

In contrast, free trade agreements lead to an uneven distribution of the gains and losses resulting from structural changes. Especially in regional agreements, market distortions as well as negative social and economic effects are possible. Novy (2014) argues that the possible gains from a TTIP agreement might be wide-spread and undefined, whereas the losses are concentrated.

Apart from economic incentives, both the US and the EU are motivated by strategic interests. According to Hamilton (2014), the US is mainly pursuing regional goals in both negotiations on TTIP and the parallel-negotiated TPP (Trans-Pacific Partnership), which is the agreement between the US and eleven countries of the pacific region. Ikenson (2013) sees the main motivation of the US in regard to TTIP as a method for calming European concerns that arose from the US reorientation toward Asia. Novy (2014) sees EU motivation driven by a possible last chance for setting global standards in the light of fading worldwide importance. In addition, Hamilton (2014) argues that the US and the EU should try to represent and spread western values through TTIP.

Removal of Non-Tariff Barriers as Core of TTIP

Despite sectoral peaks, average tariffs between the two regions are already low with only about 3% for manufacturing goods (cf. Felbermayr et al., 2013b). This is why the particularity of TTIP lies in the primary reduction of non-tariff trade barriers (NTBs); a "trade liberalization 2.0" (cf. Felbermayr and Larch, 2013).

NTBs include quality- and safety standards, labelling regulations or intellectual property rights. They are based on social preferences or policy instruments to protect the interests of consumers; however, NTBs can also arise from a protectionist motivation to shelter companies from foreign competition. Being limited by the WTO or ratified trade agreements in using tariffs, countries increasingly impose NTBs as implicit trade policy measures. The World Trade Organization (WTO, 2012) stresses the difficulty in characterizing particular NTBs as being legitimate or protectionist.

For export-oriented companies, NTBs impose additional costs since the diverging regulations require different production processes, dual inspections and more bureaucratic involvement. The removal of NTBs can stimulate world trade comparable to the reduction of tariffs.

Expected economic outcomes from TTIP

Recently published studies conduct ex-ante evaluations on the outcomes of a transatlantic free trading zone. Both the ifo-study commissioned by the German *Federal Ministry for Economic Affairs and Energy* (Felbermayr et al., 2013b) as well as the study conducted on behalf of the Bertelsmann Foundation (Felbermayr, Heid and Lehwald, 2013a) simulate the economic effects of TTIP with a particular focus on other already-existing free trade agreements. Furthermore, a study exists by the CEPR (Francois et al., 2013) which has been commissioned by the EU-Commission, and a policy brief by the French CEPII (Fontagné, Gourdon and Jean, 2013).

These studies analyze scenarios based upon differently comprehensive liberalization assumptions. The scenarios are then compared to a baseline scenario in which the agreement does not exist. Although they differ in terms of methodology and focus, the studies all reach the same conclusion that TTIP will benefit both agreeing sides. The more comprehensive the negotiated liberalization is, the larger the benefits will be.

According to the ifo- and the Bertelsmann-Study, TTIP will lead to an increase in trade between the EU and the US; an increase in real income of EU member states by 2.6% to 9.7%; and by 13.8% in the US. According to the ifo-study the joint creation of 500,000 new jobs can also be expected. However, due to the diversion of trade flows these benefits will be at the detriment of third countries. In contrast, the CEPR-study points to positive spill-over effects which will lead to an increase in exports and economic growth for third countries.

The methods of all four studies are limited in scope. With reference to the CEPR- and CEPII-Study, Raza et al. (2014) criticizes the model inherent full-employment condition and qualifies the extent of the expected NTB removal as being too comprehensive. Dieter (2014) argues that the calculations of the ifo- and Bertelsmann-Study do not account for the costs of mandatory certifications of origin of products. Hence, the projected economic growth and the number of new jobs might be considerably less.

How predictions eventually materialize can be conceptualized by the example of the North Atlantic Free Trade Agreement (NAFTA) between the US, Canada and Mexico. Even twenty years after the introduction of NAFTA, there is no general consensus on the impact of the treaty. Grumiller (2014) nevertheless shows that the predicted and actual impact on wealth, wages and jobs diverge, with the projections tending to overestimate the positive effects.

Concerns on Lowering of Standards

A large part of the publicly debated concerns addresses the intended harmonization and mutual acceptance of different standards in the EU and the US. Besides technical product and process standards, this may affect numerous areas such as environmental and health protection, as well as issues of consumer protection such as packaging and labelling rules. Solely the culture and media sector is excluded from negotiations due to a vote by the European Parliament prior to the beginning of the TTIP talks with the US.

Critics, in particular those in the EU, expect a lowering of the now high standards; European labor unions further fear that TTIP will lead to a worsening of the workers' rights and working standards, as the US has only ratified two out of eight core labor standards of the International Labor Organization (ILO; cf. Esslinger, 2014). Consumer groups are mainly concerned with quality- and safety standards, for example with respect to food production (cf. vzbv, 2014). While in Europe—marked by a precautionary principle—food must be checked for its harmlessness prior to market entrance, in the US possible harmless products will only be taken from the market if a health risk can be proven (cf. Buchter et al., 2014). Rudloff (2014) argues that differences in food standards need not be removed, but can for instance be highlighted by non-discriminating labeling.

Chief negotiators from both the EU and the US argue that the lowering of standards is not up for debate and stress the maintenance of the high health-, safety-, and environmental standards already in place (cf. De Gucht, 2014 and Nass and Pinzler, 2014).

Focus on the Investment Protection Clause

Another point of criticism regarding TTIP refers to the investor-state dispute settlement (ISDS), which grants the right to foreign investors to sue states if they see their investments being at risk due to a change in laws or standards. Included for the first time in a free trade agreement between Germany and Pakistan in 1959, ISDS are originally intended to increase the legal security for companies investing in those countries, which are not expected to provide sufficient legal protection (cf. The Economist, 2014). In doing so, foreign direct investments are presumably encouraged. There currently exists around 2.900 bilateral investment protection agreements worldwide, but it is arguable whether an ISDS is necessary in an agreement between two regions with well-developed legal systems like the EU and the US (cf. Draper and Freytag, 2014).

Critics fear the loss of a country's sovereignty if investor-state disputes are misused in order to thwart national laws. Furthermore, ISDS are met with criticism due to the opaque process of private arbitration. Klodt (2014) proposes that the TTIP negotiations should adhere to the following guidelines: First, a precise and unequivocal wording of the investment protection rule is critical to a successful agreement. Second, the trials including all documents should be made public and finally, the decisions should allow for an appeal. The negotiation between the EU and Canada on the free-trade agreement Ceta (Comprehensive Economic Trade Agreement) is regarded as a blueprint for TTIP. It includes new regulations in this field. Accordingly, lawsuits can generally not be hidden from the public gaze unless they include "confidential and protected information" (cf. Rexer and Brühl, 2014).

TTIP, Fracking and US LNG Exports

Environmental groups fear that US companies may extensively use hydraulic fracturing, a controversial technique to extract natural gas and crude oil, in EU member states by referring to investor protection rights. By contrast, Draper and Freytag (2014) emphasize that investor-state disputes can only relate to changes in law that occur during the term of investment projects. Regulations that have already been valid in the foreign country, such as a moratorium on fracking, prior to the implementation of an investment cannot be contested.

Moreover, TTIP is sometimes referred to by critics and advocates as the condition for US natural gas exports to the EU. In fact, this is not the case. Although unrestricted exports are initially allowed to only those countries that have a free trade agreement with the US, the US Department of Energy (DOE, 2014) has already approved general export licenses to several projects. It is the lack of export infrastructure that currently prevents potential natural gas trade flows from the US to Europe. TTIP will not accelerate this process.

Does TTIP harm the multilateral process in the context of the WTO?

Besides the American TPP negotiations and the EU-Canada talks on Ceta, both the US and the EU are involved in further regional negotiations, such as TiSA (Trade in Services Agreement) over the liberalization of services. As well as a multitude of bilateral and regional initiatives, these negotiations take place outside the WTO (cf. WTO, 2011). For that reason and ever since India recently turned down the 2013-agreement of Bali as part of the unfruitful Doha Round, the WTO now faces an existential crisis. TTIP is subsequently discussed insofar as it can impart a new impetus to the multilateral process or undermine it as a regional initiative.

Hamilton (2014) expects a new momentum for trade agreements from TTIP and TPP which would also affect the Doha Round of negotiations. The agreed standards and rules would serve as a benchmark in the next WTO negotiations. Mildner and Schmucker (2013) stress that in the TTIP negotiations, it is important to pay attention to the compliance with WTO guidelines in order to re-launch the multilateral process. After all, there is global interest in a WTO that is capable of acting. However, it is feared that considerable negotiating capacities are bound by TTIP and as a result the multilateral process will be held up.

Dieter (2014) criticizes the exclusion of third countries, which is a major difference to TPP. Similarly, Winters (2014) warns that emerging countries like China, India or Brazil may become isolated, and multilateral agreements will have a limited reach. On the other hand, Erixon (2013) sees third countries under more pressure to start trade liberalizing initiatives themselves since the political and economic opportunity costs of the "status quo" change. The absence of political guidance in the multilateral context could end this way. Furthermore, Erixon (2013) emphasizes that a collapse of TTIP negotiations would do anything but give new impetus to the multilateral process since the US and the EU are major stakeholders here as well.

Status of the Negotiations and Outlook

Further rounds of TTIP negotiations have taken place in the last month. In July 2014, representatives of both sides met again in Brussels to launch the sixth round of negotiations; at the beginning of October the seventh round of negotiations took place in Washington D.C. The outlines of these rounds of negotiations were published (cf. EU-Commission, 2014a). Likewise, the EU directives for the TTIP negotiation has recently made accessible online by the EU-Commission (2014b). This

move can be seen as the EU-Commission's attempt to take action against the non-transparency reproaches.

Novy (2014) rates TTIP as a long-term project which will take several more years to reach its conclusion. He points out that the US government has not yet been given a Trade Promotion Authority (TPA) from US-Congress—a regulation that speeds up and facilitates the often arduous path through the American legislation by conveying security to the contracting party.

In order to avoid eroding the credibility of the negotiating partners by an unfeasible time frame, Ikenson (2013) speaks out in favor of intermediate goals and calls for focus on individual parts of the negotiations that are both especially important and realizable.

The European Commissioner for Trade De Gucht admits in an Interview that nobody knows exactly which effects the agreement will have (cf. Hermann, 2014). The concrete results will crucially depend on the ultimate terms and conditions of the TTIP agreement which are unknown thus far. It is for this reason that an active dialogue between science, politics and society is necessary during the continued negotiations and before an agreement can be completed.

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