

Transatlantic Trade and Investment Partnership (TTIP): Briefing document

1. Background

South Africa (SA) has a free trade area with the European Union (EU) through the SA-EU TDCA. The EU is SA's largest trading partner. The United States of America (U.S.) is planning to conclude free trade agreements with the EU (so-called TTIP) and with the Asia-Pacific countries (so-called TTP). Given that the EU is the biggest market for U.S. goods, a better access for U.S. goods to the EU market through this envisaged free trade agreement will be of interest for South Africa's market access to the EU. The concessions agreed upon in the TTIP will have an influence to SA's trade with the EU.

The Transatlantic Trade and Investment Partnership (TTIP) is a proposed free trade agreement (FTA) between the U.S. and the EU. The parties hope that the final agreement will improve each other's economic growth, jobs, competitiveness and ease of doing business. Economic analysts argue that a comprehensive TTIP has important implications for both bilateral trade and the world trading system, and that, if successful, it could reinvigorate flagging multilateral trade negotiations. According to the Washington Trade Daily¹, the TTIP could create the biggest bilateral free trade zone in the world. The US is also negotiating a transpacific partnership (TPP) with eleven other countries across the Asia-Pacific region.

1.1 EU-US Trade and Investment relations

The United States of America (U.S.) and the European Union (EU) share a large, dynamic and mutually beneficial trade and economic relationship. They both are the most important trading partners to one another. The two sides account for nearly 50% of world gross domestic product (GDP) and nearly 30% of global trade. They also have foreign direct investments (FDI) of more than \$3.7 trillion in each other's economies. Together, the EU and the US account for almost 60% of total FDI and about 16% of added value in the agricultural sector, according to Berend Diekmann².

¹ Washington Trade Daily article. Vol. 21, No. 139, 15 July 2013.

² Article (3 April 2013) by Berend Diekmann of the German Federal Ministry of Economics and Technology: The TIIP: Opportunity and challenge for international trade.

He adds that in 2011, 18% of total US exports went to the EU whilst 16% of US imports came from the EU. Direct investment flows from the EU accounted for almost 40% of total FDI in the US. More than 50% of all US FDI went to the EU.

1.2 EU-US Agricultural trade³

The US is the EU's biggest market for agricultural exports, while the EU is the fifth biggest market for the US. The EU has a trade surplus with the US. The EU exports in 2012 were worth €15 billion while imports from the US were worth €8.3 billion. The major EU exports were spirits and liqueurs (22%), wine and vermouth (17%), beer (8%), waters (5%), cheese (4%), cereal preparations (4%), olive oil (4%), fruit and vegetable preparations (4%) and others. The EU imports from the US in 2012 comprised of nuts (16%), soyabeans (11%), spirits and liqueurs (8%), wine and vermouth (5%), animal and vegetable fats and oils (4%) and others.

2. Review of studies on TTIP

During the EU-US Summit in November 2011, the leaders requested the Transatlantic Economic Council (TEC) to create a High Level Working Group (HLWG) that would identify and assess policies and measures to further increase EU-US trade and investment. It is asserted by many observers that a range of regulatory, technical and other barriers have prevented the US-EU relationship from reaching its full potential. The regulatory issues and non-tariff barriers have been singled out as the most difficult areas to tackle in the TTIP. The HLWG analysis came up with a wide range of potential options for expanding trade and investment. These included (Final Report of HLWG dated 11February 2013):

- Elimination or reduction of conventional barriers to trade in goods, such as tariffs and tariff-rate quotas.
- Elimination, reduction, or prevention of barriers to trade in goods, services, and investment.
- Enhanced compatibility of regulation and standards.
- Elimination, reduction, or prevention of unnecessary "behind the door" non-tariff barriers to trade in all categories.
- Enhanced cooperation for the development of rules and principles on global issues of common concern and also for the achievement of shared global economic goals.

³ http://ec.europa.eu/agriculture/trade-analysis/statistics/eu-us-trade/2012_en.pdf

The HLWG concluded that a comprehensive agreement was needed that addressed a broad range of bilateral trade and investment issues that include reciprocal market opening in goods, services, and investment, and address the challenges of modernizing trade rules and enhancing the compatibility of regulatory regimes. They recommended the launch of negotiations on a comprehensive trade and investment agreement.

Various other studies were subsequently done to outline the benefits of the EU-US trade and investment agreement. Particular studies on the TTIP worth highlighting are by the German Marshall Fund (GMF)⁴ of the United States as well as the Institute for Agriculture and Trade Policy⁵, which focused on agricultural issues; the study by the Centre for Economic Policy Research (CEPR)⁶, London; and the study by the Peterson Institute for International Economics (PIIE)⁷. Key aspects from these studies are summarized.

The GMF paper highlights that progress on an agreement could be slow because of several challenging issues, one of the most difficult of these being agriculture, which is extremely complex and politically sensitive. It argues that the US and the EU could reinvigorate the Doha Round both by demonstrating global leadership and resolving many issues that disrupt world agricultural development and trade.

Hansen-Kuhn and Suppan (2013) of the Institute for Agriculture and Trade Policy, highlighted that the agreement could have significant impact on the evolution of agricultural markets and food systems in the US and EU, but added that, “unfortunately, little concrete information is known about the content of the TTIP proposals, since the governments involved have stated that they will not publish draft text”. They further outlined some of the concerns for healthier, more equitable and sustainable agriculture and food systems between the parties which includes differing food safety standards that have been the subject of trade disputes between the US and EU for years, resulting in complaints lodged at the WTO by the US. Some of these focused on EU restrictions on genetically modified organisms (GMOs) and veterinary growth hormones that are deemed to be safe in the US but are banned in some EU member states.

⁴ GMF paper titled: A transatlantic partnership – agricultural issues: different visions, a common destiny.

⁵ Hansen-Kuhn K and S Suppan. “Promises and Perils of the TTIP: Negotiating a transatlantic agricultural market”. Institute for Agriculture and Trade Policy, Heinrich Boll Foundation, October 2013.

⁶ CEPR – Final Project Report: Reducing Transatlantic Barriers to Trade and Investment – An Economic Assessment

⁷ PIIE Policy Brief: Crafting a transatlantic trade and investment partnership: What can be done.

Hansen-Kuhn and Suppan (2013) add that the EU, for its part, is seeking to overturn limits on its exports of beef despite concerns over EU member state controls to prevent Mad Cow Disease.

The Centre for Economic Policy Research's study which analyzed the impact of the reduction of NTBs argues that the reduction of non-tariff barriers (NTBs) will be a key part of transatlantic liberalization. It states that average tariff levels are relatively low already between the two parties and that about 80% of the total potential gains will come from cutting costs imposed by bureaucracy and regulations, as well as from liberalizing trade in services and public procurement.

The study indicates that the two parties could work together to better promote the establishment and recognition in standards, reduce regulatory divergence, and reduce the impact on rules and regulations on the cost of business. It postulates that to the extent that the parties can work together on the mentioned issues, it is likely that parts of such a framework (for example recognized product or safety standards) will be adopted elsewhere; reducing trade costs for third markets (i.e. spill-overs).

The PIIE paper recommends that in order to craft a comprehensive deal, both sides will need to undertake specific market access commitments starting with eliminating most tariffs whilst tariffs on the most import-sensitive products could be phased out over a 5-to-10 year period. Also that rules of origin should follow least restrictive requirements. In agriculture, the cutting of tariffs needs to be coupled with streamlining non-tariff measures to facilitate comprehensive agricultural market access. The two sides could also agree to eliminate farm export subsidies and set ceilings or limits on domestic agricultural subsidies. In the TTIP context, the paper argues that two of the biggest providers of farm subsidies in the world making bilateral commitments could be viable and set precedents for a broader multilateral deal.

3. TTIP First Round: Key issues and perspectives

The EU and the US held their first round of TTIP negotiations on the week of 8 July, 2013 in Washington DC, with the next round scheduled for mid-October, 2013 in Brussels. Both parties apparently aim to conclude the negotiations in two years. Although the negotiations are at an early stage, both sides envision the TTIP as a comprehensive and high standard FTA. They seek, among other things, to increase market access through the elimination of barriers to trade and investment in goods, services, and agriculture and enhance regulatory cooperation.

The Chief Negotiators are Dan Mullney (for the US) and Ignacio Garcia-Bercero (for the EU).

The negotiators expressed a common understanding that the most important and difficult areas will include market access for goods, services and foreign investment and greater convergence on regulations between the parties. The parties identified and exchanged initial thoughts on major areas and how to approach them. These constituted three major pillars which are: - market access; regulatory issues and non-tariff barriers; and trade rules.

Market access: these include goods and services, investments and public procurement, rules of origins, market access restrictions.

Regulatory issues and non-tariff barriers: these include technical barriers to trade, sanitary and phyto-sanitary (SPS) issues, cars and chemical standards, medical device and financial services.

Trade rules: these include geographic indications (GIs), intellectual property rights, competition policy, customs practices and trade facilitation, and sustainable development.

The EU has released their initial position papers covering technical barriers to trade, cross-cutting and institutional provisions on regulatory issues, sanitary and phyto-sanitary (SPS) measures, public procurement, raw materials and energy, and trade and sustainable development. The EU initial position papers were apparently leaked before they were made available to the public. The U.S. initial position papers are not yet available for public consumption. The EU's position on SPS is to seek to negotiate an ambitious "SPS-plus" chapter which will seek to build upon the key principles of the World Trade Organisation (WTO) SPS Agreement. Overall, the new SPS chapter should seek to minimize the negative effects of SPS measures on trade through close regulatory, confidence building and technical cooperation.

4. Second round

The second round talks of the TTIP originally scheduled for 6 – 10 October in Brussels were postponed to the 11 – 15 November 2013 due to the US government shutdown. The talks focused on four areas: services, investment, regulatory issues, and energy and raw materials.

The negotiations concluded with some agreements, allowing discussions on the actual treaty text for many subject areas to begin in December (Sutton K in B Brief, 6 December 2013; BertelsmannFoundation)

The US trade representative (Michael Froman)⁸ hailed the first week of the second round of negotiations as successful and productive and added “this second round has enabled us to probe more deeply into our respective approaches to specific trade and investment issues, and discuss areas of potential convergence in greater detail, including with respect to services, investment, and regulatory issues”. Supplementary video conferences on sanitary and phytosanitary (SPS) measures and other topics were also held.

5. Third round

The third round of TTIP negotiations took place on the 16 – 20 December 2013 in Washington, D.C. More than 50 policy presentations on a number of issues were made, including consumer and food safety, innovation and agriculture. The U.S. and EU negotiators also took time to share information with and hear viewpoints from more than 350 stakeholders from environmental, consumer, and other non-governmental organizations, labor unions, business, and academia.

Both negotiators emphasized the importance of strong political commitment and proactive engagement with stakeholders in order to minimize their potential political obstruction of its conclusion. Michael Froman, who is the US trade representative, in his statement on the conclusion of the third round of negotiations on 20 December 2013, expressed happiness with the progress achieved and stated that the parties were firmly in the phase of discussing proposals on core elements of each of the main negotiation areas, as well as beginning to confront and reconcile their differences on many important issues.

6. Fourth round

The fourth round of negotiations took place in Brussels on the 10 – 14 March 2014. A press release⁹ on 14 March revealed that there has been steady progress on the three major pillars of the negotiations, which are market access; regulatory issues and non-tariff barriers; and trade rules.

⁸ <http://www.ustr.gov/free-trade-agreements>

⁹ <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1041>

On market access – negotiators discussed three core elements - tariffs, trade in services and public procurement. On tariffs the EU and US had already had an initial exchange of offers. On services and public procurement, negotiators examined how to move towards exchanging offers.

On regulation - negotiators were joined by a broad cross-section of experts and regulators from both sides to discuss:

- regulatory coherence and increasing regulatory compatibility;
- technical barriers to trade (TBTs), on which both sides had already made written proposals;
- sanitary and phytosanitary (SPS) measures – preparing the ground for written proposals in due course.

On rules - discussions included three areas where negotiators are developing innovative approaches:

- sustainable development, labour and the environment - to build on what is already covered by existing EU and US trade deals;
- trade in energy and raw materials - an area in which the EU wishes to include an agreed framework in TTIP;
- customs and trade facilitation - simplifying and streamlining procedures, especially important, since lengthy, complex customs clearance rules hit smaller firms the hardest and can deter entrepreneurs from selling overseas.

The other highlight of the round was the commitment to include a chapter on small and medium sized enterprises so that they can benefit from the agreement as smaller firms employ the majority of the people in both the EU and the US.

7. Conclusion

Almost all of the studies published conclude that the most effective way to boost trade and investment is to reduce non-tariff barriers or technical barriers to trade. The real benefit of establishing a free trade area for these two rich countries seems to lie in getting rid of most of these non-tariff barriers. These are agreed to be difficult to deal with because of divergent standards between parties. The issue of the harmonization of standards will be a highly contested terrain in the negotiations.

Depending on the level of ambition from the two sides, the TTIP has the potential to make a positive contribution not only bilaterally but also to the global economy. It remains to be seen as to how far the negotiations would consider the recommendations of the HLWG. The negotiations are set out to continue throughout the year and a further round of talks is expected to be held in Washington, DC before the summer.

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