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Transatlantic Trade and Investment Partnership (TTIP): Pitfalls and Promises

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The United States and the European Union (EU) have begun the negotiation of the Transatlantic Trade and Investment Partnership (TTIP), which could greatly reduce or eliminate both tariff and non-tariff barriers to trade between the U.S. and the EU, a trade relationship that accounts for about 30 percent of world trade.

The promotion of economic freedom is a vital part of U.S. foreign and domestic policy. A TTIP that genuinely reduced trade barriers would contribute significantly to this aim. But, though negotiations are still at an early stage, there are reasons to be concerned that TTIP will not free trade but instead build a transatlantic managed market. This would reduce or even eliminate U.S. gains from TTIP and would not promote economic freedom. The U.S. should continue negotiating but be cautious and assess any agreement on its merits.

Possible Gains, Overblown Optimism. Estimates of the possible gains from TTIP vary widely depending on the assumptions used in the underlying model. The Organization for Economic Co-operation and Development concluded that potential gains to the EU and the U.S. could be up to 3.5 percent of gross domestic product (GDP)—roughly $1.1 trillion.[1] A study published by the British embassy, the Bertelsmann Foundation, and the Atlantic Council estimates a much smaller but still "ambitious" gain of $125 billion (about eight-tenths of 1 percent of GDP) for the U.S. alone if TTIP is fully implemented by 2027.[2] This study is extremely optimistic because it assumes that all tariffs are removed. The gains it projects would diminish if some tariffs were left in place.

Existing models do not fully capture the dynamic and beneficial effects of freer trade. But precisely because the U.S. and EU economies are both large and already relatively open, the beneficial effects of freer trade, though real, would not be dramatic.

One reason for caution about TTIP is the exaggerated hopes that many proponents place on it. U.S. Assistant Secretary of State for European Affairs Victoria Nuland asserts that "TTIP can be for our economic health what NATO has been to our shared security."[3] The Atlantic Council similarly asserts that TTIP "should increase military spending in Europe" and "would be a significant boost to the NATO alliance."[4] Both of these claims are doubtful at best.

The reality is that, due in part to the policies of the EU itself, the EU's share of world output has declined and will continue to decline. According to the October 2013 edition of the International Monetary Fund's World Outlook Database, the EU share was 30.9 percent in 1980; by 2018, it will be 16.7 percent.[5] That is the fundamental fact that is driving world events and U.S. policy to turn away from Europe, and no conceivable TTIP would alter this reality. Indeed, a bad agreement could actually make both the U.S. and the EU even less well off.

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Pinch Points and Harmonization Risks Abound. The easiest gains in any U.S.–EU trade negotiation would come from eliminating existing tariff barriers. Such an agreement would raise few significant issues. But tariff levels on transatlantic trade are already low. Thus, to achieve more significant effects, TTIP will have to focus on reducing non-tariff barriers.

These barriers are numerous and significant. They include the U.S. and European systems of farm subsidies, the European Parliament's support for the exclusion of culture from the negotiations, the EU's "precautionary principle" approach to regulation and its strong opposition to genetically modified food, government contracting regulations, labor and environmental standards, and much more besides. Since the EU has assiduously built up these barriers over decades, and since they constitute a considerable part of its so-called social market, it is uncertain whether the EU has any actual interest in pulling them down.

TTIP could seek to reduce the significance of these barriers by mutual recognition. In this preferable approach, the U.S. and the EU would each accept the standards of the other. This approach would preserve regulatory competition between the U.S. and EU, thus promoting greater economic freedom.

On the other hand, TTIP could require the U.S. and the EU to harmonize their standards, creating a single transatlantic regulatory area. This approach would pose serious risks to the U.S., because it would empower the Obama Administration—or any future Administration—to adopt, in the name of freer trade, any and all of the EU's restrictive regulations.

This might be good for individual businesses—if they could secure standards that suited them—but it would increase the size of the U.S. administrative state and make Americans collectively poorer. If TTIP goes down this road, it would be a severe blow to the U.S.'s economic freedom and to the principle of limited government.

EU Statements and Recent Precedents Give Reasons for Caution. Though the EU is sometimes described as a European free trade area, it is in reality a pan-European managed market. The EU does not work by mutual recognition of different national standards; rather, it imposes standards from Brussels. The EU is a bitter opponent of any form of regulatory competition. For example, it defines "an effective level of taxation which is significantly lower than the general level of taxation" as "harmful tax competition."[6] In the EU, lower taxes are viewed as a form of cheating.

It is therefore disturbing to note that EU Trade Commissioner Karel De Gucht describes TTIP as similar to Europe's "early preparations during the 1980s for a Single Market" and anticipates that the U.S. and the EU will "use such a transformative process [as TTIP] to raise their game."[7] He forthrightly hopes that TTIP would lead to "more convergence between EU and US standards … [and] reconciling their inconsistencies."[8] De Gucht praises "mutual recognition," but what he is describing is, in fact, harmonization. Similarly, a leaked EU assessment of

1. Organization for Economic Co-operation and Development, "The Transatlantic Trade and Investment Partnership: Why Does It Matter?," 2013, http://www.oecd.org/regreform/facilitation/TTIP.pdf (accessed November 25, 2013).
2. Foreign and Commonwealth Office, "TTIP and the Fifty States: Jobs and Growth from Coast to Coast," September 25, 2013, https://www.gov.uk/government/publications/ttip-and-the-fifty-states-jobs-and-growth-from-coast-to-coast (accessed November 25, 2013).
3. Atlantic Council, "Nuland Talks 'Transatlantic Renaissance' in Her First Public Address in Office," November 13, 2013, http://www.atlanticcouncil.org/events/past-events/nuland-talks-transatlantic-renaissance-in-her-first-public-address-in-office (accessed November 25, 2013).
4. Leo Michel, "TTIP: A Ray of Hope for European Defense?," Atlantic Council, July 11, 2013, http://www.atlanticcouncil.org/blogs/new-atlanticist/ttip-a-ray-of-hope-for-european-defense (accessed November 25, 2013.
5. International Monetary Fund, "World Economic Outlook Database," October 2013 edition, http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx (accessed November 25, 2013).
6. European Commission, "Taxation and Customs Union—Harmful Tax Competition," September 26, 2013, http://ec.europa.eu/taxation_customs/taxation/company_tax/harmful_tax_practices/ (accessed November 25, 2013).
7. Digital Journal, "EU Trade Commission Karel De Gucht on TTIP Ahead of Second Round of Negotiations," September 30, 2013, http://www.digitaljournal.com/pr/1497459 (accessed November 25, 2013).
8. Karel De Gucht, "TTIP: The New EU-US Commercial Relationship and the Future of the EU-Swiss Trade," European Commission, November 15, 2013, http://trade.ec.europa.eu/doclib/docs/2013/november/tradoc_151889.pdf (accessed November 25, 2013).

its trade negotiations with Canada notes that issues related to "environmental and labour standards" will likely be resolved along the "EU approach."[9]

Nor have companies on both sides of the Atlantic been idle. *The New York Times* reported in September that many companies "are seeking greater harmonization in regulations coming out of Washington and Brussels, as well as lower tariffs."[10] This lobbying melee illustrates that these well-informed firms expect TTIP to create a managed market and want to make sure the market is managed to their benefit.

TTIP Agreement Should Apply to All EU Member Nations. The U.S. should recognize that, given the strains the euro is placing on the EU's eurozone members, it is likely that at least one nation will exit the EU in the coming years. Washington should not accept any TTIP that does not apply to the EU's member nations individually as well as to the EU collectively.

An agreement that does not apply individually would leave the U.S. less well off than before if the EU begins to disintegrate. The Treaty of Lisbon (2009) allows member nations to withdraw from the EU, and any U.S.–EU treaty should acknowledge this reality.

The Best Approach. In assessing any TTIP agreement, policymakers should:

- View arguments about its broader geopolitical significance with skepticism,
- Support the principle of mutual recognition and oppose regulatory harmonization,
- Require it to apply to the EU's member nations individually and collectively, and
- Warn against political riders that are unrelated to trade and investment issues.

Reserve Judgment on TTIP Agreement. In the case of TTIP, no agreement is preferable to a bad one. But it is too soon to form a full assessment of TTIP. Supporters of economic freedom and limited government should be prepared to support a TTIP that empowers consumers and opens market opportunities for entrepreneurs. But they should not start cheering for TTIP before they confirm conclusively that the agreement is not a Trojan horse for increased regulation and the importation of the EU's managed market into the U.S. Such an agreement would be a bad deal for everyone, especially the United States.

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9. Julian Beltrame and Mike Blanchfield, "Internal Document Shows Europe Boasting of Gains in Canada Free-Trade Deal," CTV News, November 2, 2013, http://www.ctvnews.ca/business/internal-document-shows-europe-boasting-of-gains-in-canada-free-trade-deal-1.1525183 (accessed November 25, 2013).
10. Danny Hakim and Eric Lipton, "U.S.–European Trade Talks Inch Ahead Amid Flurry of Corporate Wish Lists," *The New York Times*, September 12, 2013, http://www.nytimes.com/2013/09/13/world/europe/corporate-spin-already-on-us-europe-trade-talks.html?pagewanted=all&_r=3& (accessed November 25, 2013).