Free Trade Focus

Amidst arguments over genetically modified foods, U.S. eavesdropping and other thorny issues, the EU is poised to strike its biggest trade deal.

BY DAN MCCUE

If hundreds of negotiators from 28 countries can just stay focused on the task at hand, they may achieve what some once thought impossible — the creation of the world's largest free trade area by the end of the year.

The goal is to eliminate tariffs and reduce barriers on about half the world's output and a third of its trade activity. If the deal is struck and its particulars ratified, it would be the most significant trans-Atlantic trade development since the founding of the World Trade Organization nearly 20 years ago.

But the road ahead remains long and fraught. It is littered both with legitimate issues of supply chain, markets and miss-matched regulatory regimes, and with periphery issues like the NSA spying scandals, which threaten to hijack the talks by their sheer effrontery.

Little wonder then, that when the process was launched in June 2013, at the conclusion of the G8 summit in Northern Ireland, President Barack Obama talked both of a "potentially groundbreaking partnership" and the need for patience as negotiators work through the complex details.

"There are going to be sensitivities on both sides; there are going to be politics on both sides," President Obama said. "But if we can look beyond the narrow concerns to stay focused on the big picture — the economic and strategic importance of this partnership — I'm hopeful we can achieve the kind of high-standard, comprehensive agreement that the global trading system is looking to us to develop."

What is at stake, British Prime Minister David Cameron said at the same press event, is "the biggest bilateral trade deal in history; a deal that will have a greater impact than all the other trade deals on the table put together."

Getting to the heart of the negotiations, the process we're witnessing is a long time coming.

In 2007, the U.S. government and the European Commission, the governing body for the European Union, established the Transatlantic Economic Council to kindle closer ties between the two economies.

Even after the onset of the global banking crisis, the council continued to serve as a forum for batting around strategic questions of trade and commerce. Out of these talks arose the High-Level Working Group on Jobs and Growth, a committee led by EU Trade Commissioner Karel De Gucht and U.S. Trade Representative Ron Kirk.

The start of free trade zone talks came on the heels of a report from this group, published in February 2013. A month later, the European Commission proposed negotiating guidelines to its member states and released a study on the potential effects of the EU-U.S. TTIP.

If pulled off to the extent the heads of state hope, the agreement, formally called the Transatlantic Trade and Investment Partnership (TTIP), could add over $125 billion to the U.S. economy and $156 billion to the economies of European Union member states.

In concept, over 98 percent of current EU tariffs on American goods and raw materials would disappear; the ripple effects could be profound.

According to Prime Minister Cameron, the economic shot in the arm for countries tangentially involved the partnership —those that do business with Europe and the U.S. — could be as much as $133 billion.

"The U.S.-EU relationship is the largest in the world," Obama said, picking up where Cameron left off. "It makes up nearly half of global GDP. We trade about $1 trillion in goods and services each year. We invest nearly $4 trillion in each other's economies. And all that supports around 13 million jobs on both sides of the Atlantic.

"This potentially groundbreaking partnership would deepen those ties. It would increase exports, decrease barriers to trade and investment. As part of broader growth strategies in both our economies, it would support hundreds of thousands of jobs on both sides of the ocean," he said.

The president vowed to make the strengthening of the multilateral trading system a priority of the final years of his administration.

"It is important that we get it right," he said.

Countering China's Rise

To be sure, the nations doing the talking have every reason to want the deal to come to fruition, seeing it as a way of finally breaking the back of Europe's stubborn recession, and also of creating a counter balance to the competition and influence of China and other emerging markets.

As European Commission President Jose Manuel Barroso said at the G8 briefing, "I'd rather have our companies invest in you, in overseas products and services and job creation, than in double-testing, or multiple inspections, or even separate manufacturing lines.

Total Value U.S.-EU Trade

	2007	2008	2009	2010	2011	2012	Jan-Sep 2013
U.S. Import Trade	$354.7	$367.9	$281.3	$319.6	$367.8	$380.8	$284.4
U.S. Export Trade	$247.3	$274.5	$220.8	$239.8	$268.6	$262.8	$195.1

Source: Zepol

"Our regulators need to build bridges faster and more systematically. 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 for the 21st Century," he said.

The underlying stressor is what to do about the financial-services industry and the rules related to derivatives trading.

Still smarting from the global financial crisis, the European Union would like to include as many finance-related issues into the free-trade agreement as possible. The United States is reluctant to do so.

But by far the biggest hurt on the negotiations came just after the G8 leaders' announcement, when Edward Snowden, disclosed classified details of top secret, government mass surveillance programs to the press.

Snowden's revelations included documents indicating the U.S. had spied on officials in Britain, Germany, Spain and several other countries.

After learning of these activities, Germany began to push for tough data protection goals before the free trade pact is finalized. Hoping to avoid the kind of logjam encountered during the Doha talks, EU officials proposed forging a separate data protection agreement, while keeping the trade talks with the U.S. moving forward. The situation remains unresolved.

Even without these issues, the negotiators have a lot to tackle before the trade barriers come down.

For instance, there is the controversy over genetically modified foods, which U.S. agricultural companies largely embrace, but the Europeans mostly reject. Then there is the matter of farm subsidies, something all the countries involved engage in on varying scales.

Then, to mention just a few more challenges, there are the matters of intellectual property rights, patent protections and product safety standards.

And on top of issues like these — and rest assured, there are many more — is that while the U.S. is negotiating with a "union" of European countries, the individual member states do not agree among themselves on all trade issues.

As a result, despite good intentions — the European Commission has been negotiating possible free-trade agreements with more than 80 other countries — successfully completed agreements have been few and far between.

Yet for all that, there is reason to be optimistic. Last year, after a four-year delay due in part to a disagreement over quotas for Canadian beef and European cheese, Canada and the EU did finally sign their own, $35 billion free trade deal.

Barroso called the deal, "a landmark achievement for the transatlantic market."

"With political will and a good dose of hard work, there is a way to reach a result that benefits people on both sides of the Atlantic," the European Commission President said.

Many, including the EU's De Gucht, believe the agreement with Canada could be used to guide the talks with the U.S. going forward.

The EU Vision of TTIP

Silvia Kofler, spokesperson of the EU Delegation, says every day more than $2.5 billion worth of goods and services cross the Atlantic. Together, European and American firms hold $2.5 trillion of investment stocks in each other's jurisdictions.

"But we see still untapped potential in our relationship and that is what the Transatlantic Trade and Investment Partnership seeks to address," Kofler says.

"TTIP is more than a traditional trade agreement. Our main ambition — beyond simply reducing tariffs across the board — is to make the EU and U.S. regulatory systems more compatible and to help shape global rules in trade since this is where the economic and political benefits of a deal lie.

"This could be the biggest bilateral trade deal in history, its impact greater than all other trade deals on the table put together," she enthuses.

"Our guiding light is jobs and growth, and in pursuing this we're looking at what can actually encourage companies to export, firms to hire, entrepreneurs to invest and consumers to buy," she continues. "Consumers will gain with lower prices and more options to international products. Companies will gain from tariff elimination that will make it less expensive to export. Investors will get peace of mind that their investments won't be discriminated against and they have due process just like domestic firms."

"If we get this right, it will mean the European economy will produce some $160 billion extra every year and the U.S. some $130 billion extra as a result of this agreement.

Reducing non-tariff barriers in goods and services alone is estimated to be worth $95 billion a year each to the European and American economies," Kofler adds.

With a deal, exports from all parts of the economy are expected to rise, although the negotiators expect some sectors to increase their exports more than others. EU exports to the U.S. of motor vehicles, for example, are predicted to go up by 149 percent.

"This reflects the importance of two-way trade in parts and components and the expected further integration of the two industries across the Atlantic," Kofler says.

"For the port, supply chain and shipping industries, increased transatlantic trade will naturally mean more shipments back and forth across the Atlantic and as a result the industry stands to benefit greatly," she adds.

Watching Closely

While the negotiations are being handled by diplomats and government trade officials behind closed doors, the port community is definitely looking on from the sidelines with interest.

"AAPA supports trade policies that enhance and facilitate American overseas trade, which advances our nation's position in the global marketplace and promotes economic activity and job creation here at home," said Kip Payne, manager of government relations at the American Association of Port Authorities.

Obviously, he said, trade policies that promote American economic activity impact supply chain, warehousing, and other decisions in the port community.

"Generally, AAPA supports policies that increase free and fair trade promoting American economic activity and job creation here at home," Payne says.

While the politicians talk of tariffs, dollars and cents being more readily understood by the general public, they're not the primary concern of groups like the AAPA or freight forwarders and other supply chain professionals because the existing tariffs are so low — less than four percent.

What these entities want to see is a simplification of customs procedures and an untangling of red tape and other restrictions and requirements that currently change, sometimes significantly, as goods cross borders.

So far, after three rounds of formal talks, little to nothing has emerged to what progress is being made on these issues.

Of course, U.S. and EU industry groups aren't the only ones trying to divine signs of progress and clues to the future from the brief dispatches from the negotiations. China is also watching the progress of the talks and continues to assert its growing position of power in the global economy.

In September, at the Annual Meeting of the New Champions 2013, also known as Summer Davos, Chinese Premier Li Keqiang said his government is generally supportive of bilateral and regional trade arrangements such as the Transatlantic Trade and Investment Partnership.

"Trade arrangements, be it regional or bilateral, should both follow the basic rules of multilateral trade and observe the basic principle of being open, inclusive and transparent," he said in remarks delivered in the port city of Dalian, China.

"Whatever the regional trade arrangement should realize the ultimate goal of economic globalization and should not replace multilateral trade arrangement, which is the only way to the sustainable development and prosperity of world economy," he said.

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>
> – Jose Manuel Barroso

But Li warned that if a multilateral trade mechanism fails to move forward — by this he was referring to Doha — it would affect the world's economic integration, which would continue on the sluggish course it has followed since the global crisis, making robust recovery more difficult and potentially raising the risk of more protectionist trade policies.

Business Favors Pact

Corporations and business groups on both sides of the Atlantic are also pushing hard for a pact.

The National Association of Manufacturers (NAM) was a strong and early supporter in urging the United States and European Union (EU) to launch comprehensive free trade agreement negotiations, says Jamie Hennigan, the organization's spokesman.

"The United States and the EU already have the world's largest commercial relationship but major opportunities for increased trade, investment and cooperation remain," Hennigan says. "An ambitious, trade-liberalizing TTIP could demonstrate the strong leadership of the United States and the EU to the rest of the world, put both our economies in a stronger position in the global marketplace, and set high standards that can be a model for third countries.

"A successful agreement would [also] reduce red tape at the border and in our trade and investment rules on both sides of the Atlantic, enhancing partnerships and supply chain connectivity between the United States and Europe," he says.

Since 2008, the NAM has been urging the negotiation of an agreement between the United States and EU that would enhance the competitiveness of manufacturers on both sides of the Atlantic, including by eliminating tariffs and non-tariff barriers (NTBs), promoting greater regulatory transparency, reducing incompatibilities in regulations and standards and preventing future incompatibilities.

Specifically, the NAM has said it supports the negotiation of an agreement that would eliminate regulatory, standards, and technical barriers to trade.

These could be achieved both through horizontal commitments to good regulatory practices and regulatory transparency, as well as through agreements that address regulatory incompatibilities in particular sectors, the organization says.

In addition, it wants an agreement that provides for the strong protection and enforcement of intellectual property rights, including patents, trademarks, copyrights and trade secrets.

Other NAM priorities include opening further services trade that supports manufacturing, including distribution, finance and conformity assessment; enhancing the investment climate through improvements in both access and binding and enforceable protections that promote basic rules, such as fair treatment of investors, non-discrimination and compensation for expropriation; subject to enforcement through investor-state dispute settlement; addressing the emerging issues raised by expanding digital trade and e-commerce, including ensuring the free movement of data across borders and prohibitions on data localization of servers; and finally, providing strong and effective dispute settlement mechanisms.

Maersk Line will continue to invest into the transatlantic trade, an expanding range of direct port combinations and multiple weekly departures.

Source: Maersk Global

At the same time, the NAM believes a successful TTIP will be one that removes unnecessary impediments to manufacturing growth and does not create new ones.

"Regulatory outcomes, for example, must be designed to favor markets and adhere to sound principles of science, risk assessment and cost-benefit analysis. More broadly, a growth-producing agreement should enhance manufacturing competitiveness and commercial opportunities, not undermine them," Hennigan says. "We are optimistic that a strong agreement can be reached as long as all sides keep the focus on outcomes that will promote economic growth, trade and investment, and jobs."

Tracy Little, a spokeswoman for Maersk Line, says Maersk is hopeful the agreement will result in an increased trading of both services and goods which "would translate into increased demand for ocean carriage, since this means of transportation is not only the most cost effective but also most CO_2 efficient."

If the prospective free trade agreement does indeed increase the trading of goods between the U.S. and the EU, then Maersk believes increased activity driven by increased demand would have a positive impact on the wider port community.

"Without knowing details of a final agreement it would be speculation to estimate the impact on individual sectors," Little says. "What we do see, however, as a necessity, is continuous investments into the port infrastructure in the United States.

"Most European ports are able to handle the latest generation of container vessels in the 14-18,000 TEU category. However, vessels of this size currently cannot be handled by most, if any of the American ports. This limits the efficiencies the carriers and Maersk Line can introduce to the trade," she says.

Little says as the talks proceed, Maersk Line will continue to invest into the transatlantic trade, an expanding range of direct port combinations and multiple weekly departures.

"These are all aimed to offer our customers the flexibility and coverage they are looking for," she says.

But Little adds, "As an ocean carrier, we sit a bit on the sideline."

"What matters to our customers is what matters to us," she says. "Predominantly, import/export taxes and quotas, as well as alignment on trademarks (for example that Parma ham can only come from the defined region in Italy), seem to be the big ticket items. Our customers can certainly offer more insight in this respect, but the general statements we hear are 'the more free trade, the better' — a basic but accurate statement that we hope is the guiding principle for the politicians negotiating the agreement."

Political Will

Despite all the challenges that may crop up along way, the EU's Kofler has no doubt the negotiators will achieve a deal.

"The notion of some sort of transatlantic free trade market has been circulating for years, but we have never before seen the will and impetus as we see now," she says. "The amount of political will to deliver on the TTIP is unprecedented and the post-crisis era warrants an effective coordinated response from the world's two largest economies.

In the aftermath of the financial crisis, the EU and the U.S. face similar challenges as we struggle with slower growth levels and high debt burdens, in an increasingly competitive global environment, Kofler says.

"It is against this backdrop that we see an ideal opportunity for us to move forward together by successfully concluding a major trade deal," she says.

When it comes to what Kofler refers to as the "NSA spying issue," the long-time member of the EU's diplomatic corps says fears it will derail the trade talks are over blown.

"An EU-U.S. high-level expert group has been established to address intelligence oversight, intelligence collection, and privacy and data protection issues. [As a result], these discussions are on a separate track from our trade talks," Kofler says.

That said, the biggest effort the trade negotiators will undertake is addressing those barriers that lie behind the customs border — such as differences in technical regulations, standards and certification requirements.

"These barriers to trade are estimated to have the same effect as if we had extra tariffs of between 10 and 20 percent per product," Kofler says. "Tackling these regulatory barriers is, by many accounts, the crown jewel of the negotiations. If we succeed, it will provide a significant boost to the transatlantic economy, but at the same time we realize this may prove to be the toughest part to pull off."

That said, Kofler was steadfast in what she wants to see come out of the talks and what she doesn't want to see.

"I don't want to see us settling," she says firmly. "By that I mean we should not lower our ambitions in these talks but keep a clear focus on securing a comprehensive deal. We are still early in our negotiations — our second round just wrapped up in Brussels. And we are bound to hit periods where some will argue for a smaller deal. You could, in theory, just cut tariffs; or you could do it piecemeal as some have said.

"But with these you run out of steam and the political will to keep going," Kofler continues. "And given our tariff rates are so low, would that lead to a wave of trade activity and ultimately jobs and growth? I would wager to say 'no.' The true gains will come from an opening of all sectors, incorporating greater regulatory coherence in our systems, and creating a more predictable and level playing field for businesses and consumers having more options and choice. These are the real catalysts for jobs and growth." WT