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TTIP AND THE EU MEMBER STATES

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An assessment of the economic impact of an ambitious Transatlantic Trade and Investment Partnership at EU Member State level

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ABBREVIATIONS

APEC	Asia-Pacific Economic Cooperation
BEA	US Bureau of Economic Analysis
BIT	Bilateral Investment Treaty
CASE	Center for Social and Economic Research
CEPII	Centre d'Etudes Prospectives et d'Informations Internationales
CEPR	Centre for Economic Policy Research
CEPS	Centre for European Policy Studies
CETA	EU-Canada Comprehensive Economic and Trade Agreement
CGE-model	Computable General Equilibrium-model
DG Trade	Directorate-General for Trade
EFSA	European Food Safety Authority
ETS	Emissions Trading Scheme
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GTAP	Global Trade Analysis Project
HLRCF	High Level Regulatory Cooperation Forum
ICS	Investment Court System
IFO	Information und Forschung Institute
IIA	International Investment Agreement
IIDE	Institute for International and Development Economics
ILO	International Labour Organization
IPRs	Intellectual Property Rights
ISDS	Investor-State Dispute Settlement
LEI Wageningen	Landbouw Economisch Instituut Wageningen
MEA	Multilateral Environmental Agreement
MFN	Most Favoured Nation
MRA	Mutual Recognition Agreement
NAFTA	North American Free Trade Agreement
NGO	Non-governmental Organisation
NTB	Non-tariff Barrier
NTM	Non-tariff Measure
RCB	Regulatory Cooperation Body
SME	Small and Medium-Sized Enterprise
TEC	Transatlantic Economic Council
TPP	Trans-Pacific Partnership
TTIP	Transatlantic Trade and Investment Partnership
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
USTR	United States Trade Representative
WTI	World Trade Institute

FOREWORD

The American Chamber of Commerce to the EU (AmCham EU) is delighted to sponsor a new, World Trade Institute-led study, "TTIP and the EU Member States." This study, which brings together the expertise of prominent academics from across Europe, has a simple goal. It seeks to assess what a transatlantic free trade agreement will mean for EU countries. It concludes that the Transatlantic Trade and Investment Partnership (TTIP) is likely to bring a range of economic and social benefits to business, consumers and citizens across the EU.

Reducing the remaining barriers to transatlantic trade and investment could result in permanent income increases and significant export growth for the EU Member States to the US. Wages for high- and low-skilled workers are expected to increase, while consumers could also benefit from lower prices for their products and services. These gains would provide a much needed boost at a time when growth in Europe remains sluggish and investment remains relatively weak.

TTIP is likely to be particularly important for SMEs, who make up 99 percent of companies here in the EU. Unlike big companies, they lack the resources to overcome the burdensome costs and requirements necessary to "go transatlantic". Unleashing the potential of small businesses and entrepreneurs in the EU to export to the US could transform the European economy and the lives of millions of its citizens.

But TTIP is about more than just economics. An ambitious transatlantic free trade agreement containing robust social and environmental provisions can serve as a model for future trade agreements and for the rest of the world. It would enable Europe to play a leading role in shaping globalisation, at a time when the rules and norms that govern trade and investment are being challenged more than ever before. It could also promote a "race to the top" in Europe on standards, by giving EU and US regulators more time and resources to protect the health and well-being of their citizens.

As a business association representing US companies committed to growth and prosperity in Europe, AmCham EU welcomes the broad debate on TTIP taking place in towns and cities across the EU. We hope that this study will provide a positive contribution to this discussion, helping European business and citizens to develop an informed opinion of what TTIP could mean for them. It will also help EU policymakers as they seek to construct an ambitious and balanced agreement that encourages trade, investment and growth in Europe. We believe that this, ultimately, is in everyone's interest.

Susan Danger
Managing Director
AmCham EU

TAKEAWAYS

1. In macro-economic terms, TTIP is expected to lead to GDP increases for all but one EU Member State. It should also lead to export increases, to wage increases, to consumer price decreases for the majority of EU Member States, and to a small decline in income inequality.

2. Economic gains are not equally spread between EU Member States and come in different forms: through export and production increases, investments, through lower consumer prices, or a combination of these factors.

3. At the sectoral level, there are gains for sectors like manufactures, water transport, insurance services, processed foods, chemicals and pharmaceuticals, and motor vehicles across the EU Member States. Electrical machinery, metals and metal products, and transport equipment are expected to decline.

4. TTIP is expected to safeguard the EU's high provisions for social, environmental and consumer protection.

5. The deeper the existing (direct and indirect) economic relationship between an EU Member State and the US, the higher the expected income level benefits from TTIP.

6. TTIP is expected to have especially positive effects for SMEs if it focuses on addressing practical barriers to trade.

7. TTIP is not expected to harm the EU Internal Market, and could even give it a significant boost.

8. Increased trade may lead to a rise in overall emissions, but any increases could also be partially mitigated in the long-run by enhanced trading practices.

9. TTIP provides an opportunity to create a "gold standard" in trade agreements for investment protection.

10. For consumers, TTIP could lead to lower prices and increased consumer choice.

11. Limited labour mobility is expected between sectors.

1

In macro-economic terms, a comprehensive TTIP agreement is expected to lead to:

a. Permanent increases in GDP levels for 27 out of the 28 EU Member States, ranging from -0.3 percent to +1.6 percent;

b. Permanent increases in exports for all 28 EU Member States, ranging from +5 percent to +116 percent;

c. Permanent increases in wages in all EU Member States for high-skilled workers of up to +1.4 percent, and increases in wages for low-skilled workers in 25 out of 28 Member States of up to +1.5 percent;

d. A small decline in income inequality in the majority of EU Member States, with wages for low-skilled workers expected to grow marginally faster than wages for high-skilled workers;

e. Decreases in consumer prices in the large majority of EU Member States of up to -0.9 percent.

2

Economic gains are unevenly distributed and come in different forms:

a. Countries including Lithuania, Austria, Belgium and Ireland gain most, while countries including Czech Republic, Hungary, and Estonia gain less. Malta could experience a marginal contraction in GDP;

b. Economic gains can come from more production and exports (for producers), from more investments, from lower consumer prices (for consumers) or from a combination of these factors.

3

At the sectoral level, there are different impacts for a range of sectors across the EU Member States:

a. The biggest gains in terms of output include the manufactures, water transport, insurance services, processed foods, chemicals and pharmaceuticals, and the motor vehicles sectors;

b. Some sectors that are expected to decline in terms of output include electrical machinery, metals and metal products, and transport equipment.

4

TTIP will include robust safeguards for social, environmental and consumer protections:

a. In order to maintain citizens' rights, the regulatory cooperation chapter in TTIP will focus on reducing regulatory barriers to trade, making regulation of an equivalent standard more compatible, and enhancing cooperation between regulators;

b. The regulatory cooperation chapter does not intend to directly or indirectly influence legislation;

c. Significant benefits could accrue from improved mutual equivalence that would lead to increased cooperation between regulators and the opportunity to promote a "race to the top" on standards globally.

5

The deeper the existing (direct and indirect) economic relationship between an EU Member State and the US, the higher the expected income level benefits from TTIP:

a. This implies that there is an incentive for the EU to enact policies that would further deepen the EU Internal Market in parallel to TTIP;

b. It also suggests that EU governments that seek to enhance their economic relationships with the US through complementary domestic policies would amplify the potential for enhanced economic growth.

6

TTIP is expected to have especially positive effects for SMEs:

a. Lower regulatory burdens and improved market access through exports matter more for SMEs who are less able to overcome the costs and obstacles to trading with the US than are big companies;

b. For SMEs, trade facilitation and other very practical barriers to trade in the value chain matter most.

7 **TTIP is not expected to harm the EU Internal Market, but rather may give it a significant boost:**

a. Trade diverted from the EU Internal Market to the US will be minimal because tariffs are already low (except in the case of agriculture);

b. Given that the EU Internal Market is still fragmented in key TTIP areas (e.g. services, public procurement), TTIP cannot erode EU preferences that barely exist.

8 **Increased trade may lead to a rise in overall emissions, but any increases can be mitigated in the long-run by enhanced trading practices:**

a. The overall effect of TTIP on the environment is not easy to quantify, hinging on the net balance of three effects – additional emissions, sectoral effects, and improvements in efficiency and technology;

b. However, preferential outcomes in TTIP, such as enhanced regulatory practices, increased trade in environmental and renewable goods, and strong environmental protection provisions could mitigate the effects of increased trade and create the conditions for a positive long-term net balance.

9 **TTIP provides an opportunity to create a "gold standard" in trade agreements for investment protection:**

a. Modern trade agreements retain the Investor-State Dispute Settlement (ISDS) mechanism as a safeguard for investors, but also explicitly detailing states' right to regulate in certain legitimate public interest areas, providing more objective arbitrage, and acting against frivolous claims;

b. An Investment Court System (ICS) in TTIP that balances the interests of states, businesses and the public interest could become a model for investor protection around the world;

c. To address public concerns and to ensure that the mechanism is utilised effectively, investor protection and ICS provisions in TTIP should be clear, unambiguous and well-defined.

10 **For consumers, TTIP could lead to lower prices and increased consumer choice:**

a. With increased trade, a greater range of products and services will be available to consumers;

b. Consumers will also benefit from lower prices for goods and services in the transatlantic market, as a result of the reduction or elimination of tariffs and duties, and other improvements in the trading environment.

11 **Limited labour mobility should be expected between sectors:**

a. Certain sectors are likely to grow in the EU as a result of TTIP (e.g. other manufactures, water transport), while some may also contract (e.g. electrical machinery), encouraging the movement of labour from declining to growing sectors;

b. Any TTIP-induced mobility will be marginal (around 2 percent only) in comparison to the effects of other external developments, such as technological progress or social policies initiated by EU Member State governments.

c. Meanwhile, regulatory cooperation is focused on measures that directly affect goods and services traded between the EU and US. Domestic policies will remain the exclusive domain of the EU Member States.

The "pull factor" for employment to move into growing sectors with higher wages away from sectors with lower wages, is the dominant force for labour mobility;

RECOMMENDATIONS

"To maximise its economic, political and social impact, TTIP should be as open a trade agreement as possible, and should offer the opportunity for third countries to join in the future."

We therefore recommend the following to the EU Member States:

→ Pursue a TTIP agreement that will boost growth and investment, increase competitiveness, and enhance consumer choice in the EU, while resolutely upholding and where appropriate enhancing standards;

→ Conduct thorough research on the effects of TTIP on their countries, so that they can reap the many potential benefits of TTIP and mitigate any possible negative impacts;

→ Play an active and constructive role in the negotiations by providing continued guidance, suggestions for ways forward, and feedback to the EU negotiators;

→ Actively engage with and make the case to their citizens about TTIP and the benefits, challenges and opportunities of the agreement, so that they can make informed, fact-based decisions about what the agreement means for them;

→ Implement domestic policies that supplement the goals of the EU-wide negotiations to maximise the expected positive economic effects that TTIP will bring to their countries;

→ Implement domestic policies that accommodate anticipated changes in the labour force from TTIP such as tailored labour market and education policies.

We recommend the following to the European Commission:

→ Ensure greater access to the US market; in certain sensitive sectors, tariffs should be phased out gradually to minimise trade diversion effects;

→ Deepen the Internal Market in parallel to the trade negotiations, since the more integrated the EU Internal Market, the greater the positive effects from TTIP;

→ Maximise the potential gains from regulatory convergence, including by emphasising the importance of a "living agreement" that will continue to promote enhanced regulatory practices in the future;

→ Define clear provisions and guarantees in TTIP to uphold, and, where appropriate, enhance standards on both sides of the Atlantic;

→ Prioritise opportunities for SMEs, who could benefit the most from increased access to the transatlantic market and who lack the resources of big companies to overcome barriers to trade;

→ Use TTIP as an opportunity to reform the ISDS mechanism, safeguarding investors' rights, protecting the public interest, and creating a gold standard for these instruments in trade agreements globally;

→ Make TTIP as open a trade agreement as possible with very few Rules of Origin provisions and with the possibility for third countries to join in the future;

→ Maintain an ambitious transparency agenda and explore further opportunities to engage with the public to produce an agreement that best meets the needs of EU citizens and business.

EXECUTIVE SUMMARY

"The proposed TTIP agreement being negotiated by the EU and the US has generated widespread public debate on its potential impact for citizens, consumers and businesses on both sides of the Atlantic. Our findings demonstrate that TTIP should bring a range of economic, social and geostrategic benefits to the EU and to the US. Importantly, TTIP should not be mischaracterised as a project that is promoted exclusively by advocates of free markets. TTIP aims to reduce the costs for businesses of all sizes associated with complying with two separate regulatory regimes, which in many cases have comparable levels of protection."

This study concludes that TTIP could be a game-changer and represents a strategic opportunity for the EU and the US.

- TTIP is a new-style, comprehensive 21st century trade agreement that goes beyond traditional market access issues (i.e. tariffs) and could set a new gold standard for future trade agreements.
- Besides eliminating tariffs on goods and services traded between the EU and the US, TTIP also focuses on aligning regulatory regimes and creating a rules-based international framework.
- TTIP provides an opportunity for the EU and the US to lead by building upon what is already the largest and deepest trade and investment relationship in the world. Ties between the EU and the US in goods, services, jobs and investments are broad and deep and can be expanded further through TTIP.

Many EU citizens and legislators do not realise how deep the links between EU Member States and the US already are, nor do they realise the differences in the depths of these economic relationships across European countries. The economic impact of TTIP is likely to be particularly significant in those EU countries where the trade, investment and employment relationship with the US is strong. Nevertheless, by increasing trade with the EU's biggest trading partner, TTIP could also bring a host of benefits to those EU countries with more limited economic ties with the US.

Transatlantic goods and services: an EU Member State perspective

In 2011, the EU sent **18.5 percent of all its goods exports to the US**; the US being the main (extra-EU) goods export destination for EU goods. Within this figure, there is a wide differentiation in export figures among the EU Member States. Ireland exports 56.7 percent of all its goods to the US. Meanwhile, Cyprus is far less dependent on goods trade with the US – it exports just 3.2 percent to the US. Our findings show that TTIP is expected to lead to significant export increases for many EU countries, in particular in sectors such as chemicals, automotives, and machinery.

In 2011, the EU as a whole sent **25.9 percent of all services exports to the US**. Again, the US is its biggest (extra-EU) export destination. EU countries with the largest services export shares to the US are Ireland, with 43.5 percent of all exported services going to the US, Luxembourg with 37.7 percent, and the UK with 33.5 percent. These are also the EU Member States with the most important financial and insurance service industries, two key sectors linking the transatlantic economies.

Transatlantic investments: an EU Member State perspective

The EU-US relationship is particularly strong in terms of investments. The EU and US are by far each other's main investment markets – as Hamilton and Quinlan also conclude. Finland, Sweden and Germany send over 40 percent of their investments to the US. Meanwhile, over half of investments into Luxembourg and the UK come from the US. These services and investment links form a core strength of the transatlantic economy.

Transatlantic jobs: an EU Member State perspective

In 2011, total jobs in the EU of US-controlled firms numbered 6.0 million. Many of those six million jobs

were created in the UK (28.4 percent), Germany (13.9 percent), France (10.8 percent), Poland (8.5 percent) and Italy (6.7 percent). The US is by far the largest extra-EU foreign job creator in the EU. In Ireland, 40.0 percent of all foreign (non-EU) jobs derive from US-controlled companies. In the UK, this number is 31.4 percent, in Italy 23.3 percent, and in France 23.3 percent.

Expected TTIP effects for EU Member States

Under an ambitious and comprehensive TTIP agreement, expected effects for individual EU countries are positive and far-reaching. All but one EU Member State will see increases in GDP, and all 28 EU Member States should see clear to very significant export increases. Our conclusions proceed from and build upon the most reliable methodological approach to date according to a European Parliament study (CEPS, 2014), a combination of gravity analysis with a Computable General Equilibrium model. This method is used by Ecorys (2009), CEPR (2013), and CEPII (2013) to look at TTIP and it is also employed by UNCTAD and the ILO.

TTIP effects on national income levels (GDP)

TTIP is likely to boost EU income levels by an additional 0.5 percent on average. Member State income levels are expected to increase in all EU countries, with the exception of Malta (-0.3 percent). The highest gains accrue in Lithuania (+1.6 percent), Ireland (+1.3 percent), Belgium (+1.1 percent), and Austria (+0.9 percent). Changes in income levels from TTIP are also encouraging for several EU countries that have been recently affected by the financial crisis in Europe, including Ireland, Cyprus (+0.6 percent), Italy (+0.5 percent) and Greece (+0.4 percent). In addition, the deeper the existing economic relationship between an EU Member State and the US, the higher the expected income level effects. This implies that there is an incentive for the EU to enact policies that deepen the EU Internal Market, and for EU national governments to enhance their economic relationship with the US through complementary domestic policies. Such measures would amplify the potential for economic growth from TTIP.

TTIP effects on exports

TTIP is expected to lead to export increases to the US for all EU Member States. Export increases range from +5 percent in the case of Cyprus, to +116 percent for Slovakia's economy. EU countries that are the most integrated horizontally in global value webs with other EU countries and the US, and that have sizeable trade flows in sectors such as automotives, chemicals or machinery, see the largest increases in exports.

TTIP effects on wages

EU wages for both low-skilled workers (+0.51 percent) and high-skilled workers (+0.50 percent) are expected to increase. Wage inequality in the EU is projected to decrease marginally because wages for low-skilled workers are expected to grow a little bit faster than wages for high-skilled workers. Wages for high-skilled workers rise between 0.03 percent (Czech Republic) and 1.4 percent (Ireland). That is, for Irish high-skilled workers, TTIP should yield the equivalent to a 1.4 percent salary raise. Low-skilled wages in Romania, Czech Republic and Estonia are expected to decrease marginally.

TTIP effects on consumer prices

An ambitious TTIP agreement is expected to lead to lower costs for EU and US producers, by reducing unnecessary differences in regulatory regimes, by enhancing information exchange, and by aligning conformity assessments and certification procedures. Firms will pass these lower costs on to consumers if the latter are price sensitive, for example, in automotives, certain pharmaceutical products, and travel and tourism services. This yields a drop in consumer prices in two-thirds of all EU Member States. Lithuania (-0.9 percent) is expected to see the largest decrease in consumer prices. In Poland, Malta, Latvia, Luxembourg and Finland, consumers will also pay significantly less for their daily goods and services.

TTIP and third countries

Distinct from traditional free trade agreements, TTIP could also lead to positive economic effects for third countries – due primarily to the agreement's regulatory cooperation pillar. Gains are, however, only expected to materialise if TTIP is relatively open to third countries – with few Rules of Origin, open MRAs, and the option in the future for third countries to join. Our analysis of spill-over effects from TTIP also suggests that domestic policies enacted in the EU, the US and third countries could amplify the possible positive impacts of TTIP and mitigate any potential negative effects, for example through domestic education and labour policies.

INTRODUCTION

Purpose of the Study

Given the expected complexity and scope of a transatlantic free trade agreement between the EU and the US, an open and frank debate on the potential effects of TTIP on citizens on both sides of the Atlantic is critical. Negotiations for a TTIP agreement have entered an important phase, and a wide range of issues are being discussed by negotiators that could have a profound impact on EU and US citizens. The strong level of public and political engagement – especially in certain EU Member States – illustrates this fact, especially because TTIP touches upon a number of industries and regulatory issues that are politically sensitive. As Cecilia Malmström, EU Trade Commissioner, put it: *"This [TTIP] is not just another trade negotiation. And we should not present it to people that way. It's a negotiation with our own largest trading partner. It's a negotiation between the world's two largest economies who share many common values. And most importantly it's a negotiation that goes beyond traditional trade issues like market access for goods and services. Most importantly, but not only, about regulation".*[2]

The vigorous debate on TTIP that is taking place across Europe on the merits of TTIP should help to produce a balanced agreement that is attentive to the needs of the public, business, and consumers. It is also likely to provide the model for future EU trade agreements. Engagement between the European Commission and key stakeholders, in regular consultations with Member States, the European Parliament, and with civil society, and in publicising negotiating documents, has resulted in an unprecedented level of transparency and engagement in the TTIP negotiations. As European Ombudsman Emily O'Reilly – who is tasked with holding the EU institutions to account – stated in her analysis of the European Commission's role in the negotiations in May 2015, *"The Commission is leading by example…The ambitious transparency agenda it has set for TTIP augurs well for future trade and investment negotiations."* [3]

In this context, AmCham EU commissioned a broad consortium of European universities, research and policy institutes, and think tanks to explore the potential effects of TTIP on each individual EU Member State, as well as to scrutinise some of the most important TTIP-related issues impacting upon EU and US citizens. Reports such as this study and many other forms of analysis add a further level of engagement to the debate.

Coordinated by the World Trade Institute (Switzerland), the Centre for Economic Policy Studies (Belgium), Sciences Po (France), Ekenberg & Andersson (Sweden), the IFO Institute (Germany), Leiden University (The Netherlands), Halle University (Germany), University of Rome (Italy), Cambridge University (UK), LEI Wageningen UR (The Netherlands) and CASE (Poland) have all contributed to this study. This study is the enhanced EU mirror-image of "TTIP and the Fifty States" for the US that was published in 2013 by The British Embassy Washington, Bertelsmann Foundation, and Atlantic Council.[4]

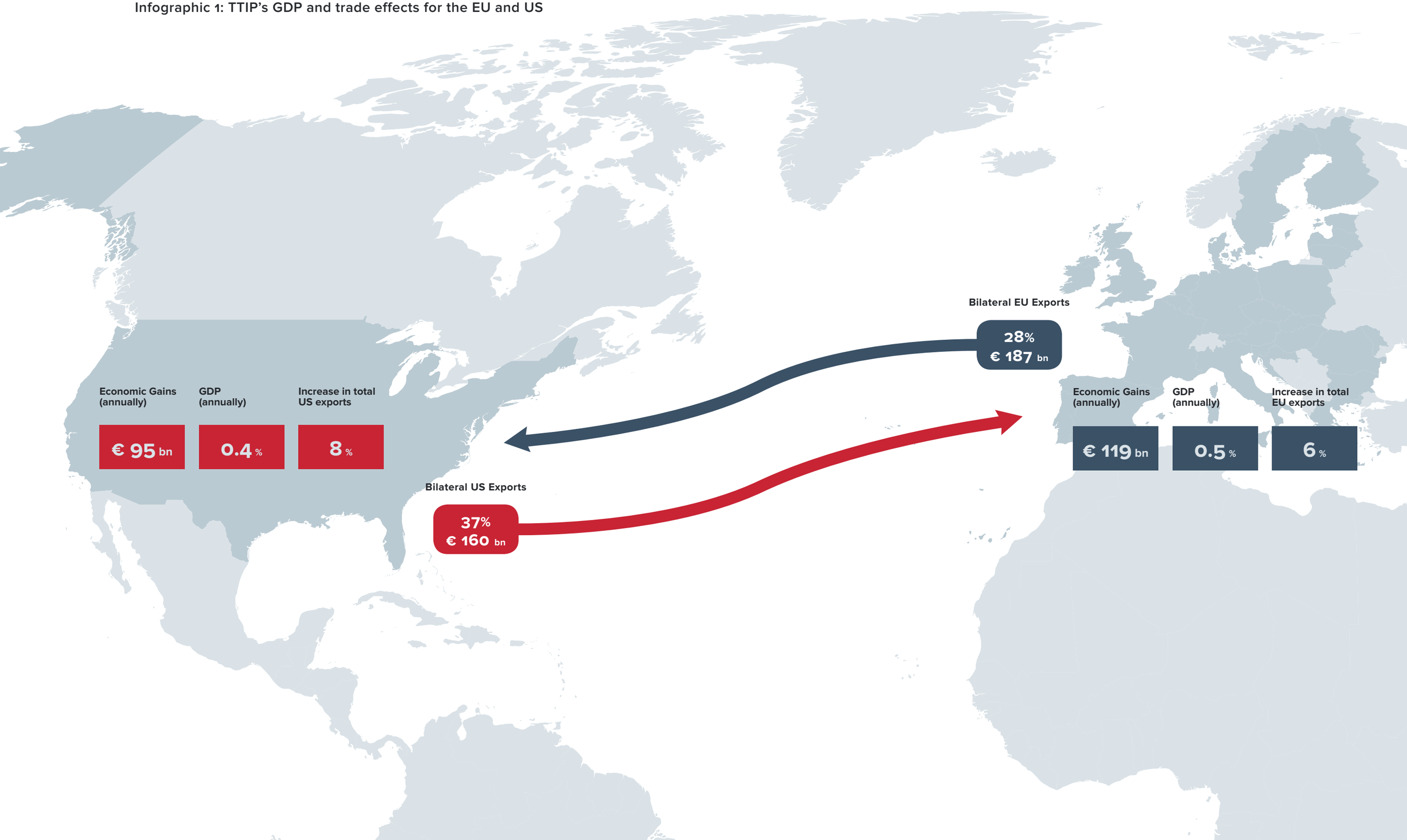
This study is based on a methodological combination of the Ecorys Non-Tariff Measure (NTM) database, the GTAP database, and the most recent data and information available from Eurostat, BEA, and Hamilton and Quinlan. From a methodological standpoint, this study is unique in that it extends and enhances the most reliable methodological approach to-date: Computable General Equilibrium (CGE) modelling. This CGE approach is benchmarked in a European Parliament study as the best method currently available, and is used in various TTIP impact studies as well as by the UNCTAD and the ILO who use the technique in their institutional FTA analyses and trade policy advice to members.[5] CGE modelling outcomes have been used to measure effects in each Member State, using tariff liberalisation and non-tariff measures alignment (See Annex II). A complementary analysis of important TTIP-related issues including the effects of TTIP on the environment, social protection, SMEs, food safety, investor protection, the EU Internal Market and regulatory cooperation is also included.

Contributions of this study

This study contributes to the TTIP debate in three ways:

- It provides an overview of current economic relations between each EU Member State and the US;
- It examines the effects of TTIP on each EU Member State;
- It provides expert analysis on a variety of key TTIP-related issues.

Infographic 1: TTIP's GDP and trade effects for the EU and US



THE STATE OF PLAY IN TTIP

"TTIP is a 'new style' comprehensive trade agreement that could set the standard for 21st century bilateral and multilateral agreements that focus on regulatory cooperation."

The importance of TTIP

A successful TTIP could be a game changer for both the transatlantic economy and for the rest of the world. First, TTIP is a "new style" comprehensive trade agreement that could set the standard for 21st century bilateral and multilateral agreements. Second, TTIP covers the largest and deepest trade and investment relationship in the world. Third, TTIP is likely to yield significant economic benefits for the EU and the US, and possibly also third countries. Last but not least, the strategic opportunities presented by TTIP for the EU, the US, and the global trading system as a whole are potentially far-reaching.

TTIP is a new style, 21st century, trade agreement

TTIP aims to remove trade barriers across a wide range of sectors. An ambitious agreement will consist of three main pillars: market access (including tariff reductions); aligning regulatory regimes and non-tariff measures (NTMs) without lowering the levels of protection; and rules (such as customs and trade facilitation, and IPRs). Given that tariffs between the EU and US are already quite low, negotiations will mainly focus on reducing the regulatory barriers to trade that exist between the two countries. This shift from tariff-only agreements to include regulatory and behind-the-border barriers, and rules, is an important innovation because there is mounting evidence that differences in regulatory regimes can significantly increase operating costs in different markets, obstructing bilateral trade. Narrowing regulatory differences will allow for cost reductions for EU and US companies of all sizes, which means that an ambitious TTIP will not be subject to the same economic dynamics as tariff-only agreements. Third country effects from TTIP are likely to be more positive than under a tariff-only FTA, because the potential for regulatory alignment will positively affect the cost structures of third country producers vis-à-vis both the EU and US markets. The actual effect in third countries will hinge critically on whether the approach to regulatory alignment is deliberately discriminatory or not.

The "new style" elements of TTIP arise primarily from a stronger focus on regulatory alignment and a rules-based interpretation of international trade. In this area, challenges are significant. Analysis of the differences in "regulatory philosophies" across the Atlantic between the EU and US have highlighted in particular the supposed diverging approaches to risk analysis and the application of the precautionary principle. It has been argued, for example, that *"European regulators are more inclined to act in the face of insecurity [in their regulatory assessments], whereas American regulators would only act if there is at least some evidence available".*[7] The EU and US have sought to overcome these differences in regulatory philosophies through various mechanisms that promote cooperation and understanding. These efforts date back to 1990, at which time the EU and the US issued the "Transatlantic Declaration" which included an implicit reference to transatlantic regulatory cooperation. The declaration promised that the EU and US would "inform and consult each other on important matters of common interest, both political and economic, with a view to bringing [their] positions as close as possible, without prejudice to their respective independence".[8]

The Transatlantic Declaration was subsequently followed by a range of complementary regulatory initiatives. These include The New Transatlantic Agenda (1995), The EU-US Joint Statement on Regulatory Cooperation (1997), The Transatlantic Economic Partnership and Action Plan (1998), The EU-US Mutual Recognition Agreement (1998), The EU-US Guidelines for Regulatory Cooperation and Transparency (2002), The European Court of Justice Judgement (2004), The EU-US Positive Economic Agenda (2002), The EU-US Economic Initiative (2005) and High Level Regulatory Cooperation Forum (2005), The Transatlantic Economic Council (2007), The High Level Working Group for Jobs and Growth (2011), and now TTIP (2013 - present). A more elaborate view on the importance of regulatory cooperation in TTIP is provided in Insert 3 (p. 78) and in Annex III.

TTIP covers the broadest and deepest trade and investment relationship in the world

The EU-US economic relationship generates over €4.4 trillion in total commercial sales per year and employs some 15 million workers in mutually "onshored" jobs on both sides of the Atlantic.[9] The total size of these combined economies exceeds 40 percent of world GDP in value terms. Though down from 2012, total EU-US trade was around €680 billion in 2013 – over 100 percent more than at the turn of the century. Whereas the US ran a trade deficit with the EU in terms of goods trade of €109 billion (of which over 50 percent was accounted for by Germany), it ran a services trade surplus of €44 billion with the EU. Some 45 out of 50 states in the US export more to the EU than to China.[10]

Transatlantic services, also referred to as the "sleeping giant" of the transatlantic economy (Hamilton and Quinlan), have seen a decline in trade since 2012. Nevertheless, the EU still accounted for 38 percent of total US services exports and 42 percent of US services imports in 2012 – at a value of around €210 billion. In the pages that follow, we will present transatlantic EU Member State-level trade and services statistics. Transatlantic services trade becomes even more impressive if we acknowledge that the more important link actually runs via foreign direct investments (FDI) and foreign affiliate sales. Sales of US foreign affiliates in the EU were two-and-a-half times higher than US services exports. In fact, the EU has received 56 percent of US foreign direct investment (FDI) since the turn of the century, with the UK, the Netherlands and Ireland together accounting for around 80 percent of this total.

Because of two-way FDI flows and the resulting local presence through foreign affiliates, the EU and the US are the two regions that generate by far the most jobs in each other's economies. Detailed statistics on the number of jobs created by US affiliates per Member State are also provided in the pages that follow.

Economic importance of TTIP for the EU and US economies

Many studies have been carried out to look at the potential effects of trade agreements in general and TTIP in particular.[11] Outcomes of these studies vary – in part because of assumptions about the level of ambition under TTIP and because of differing approaches. While respecting all different points of view, and while engaging actively in the academic methodological debate, we believe that some approaches are better suited to analysing the potential effects of TTIP than others. As already highlighted, the European Parliament has also concluded that general equilibrium models are the best tools available at present to do such work.[12]

While this study analyses the potential effects of TTIP on individual EU Member States, the expected gains – detailed in the CEPR (2013) study – for the EU and the US as a whole from an agreement encompassing tariff elimination as well as non-tariff measure alignment are significant. This study – which makes moderate assumptions about the level of ambition under TTIP compared to other studies – estimates that TTIP could lead to the creation of €119 billion in annual welfare gains for the EU and €95 billion for the US.

This amounts to an estimated structural increase in the level of GDP of roughly 0.5 percent annually for the EU and 0.4 percent for the US. In contrast to other trade agreements, TTIP should not have to come at the expense of third countries, because aligning regulatory regimes has the potential to reduce production costs for third country producers. This third-country effect is not guaranteed however, and hinges on the approach taken to regulatory alignment. If the approach to alignment is not discriminatory by construction, third country welfare gains could add up to €100 billion annually. Exports of the EU Member States to the US would increase by 28 percent, equivalent to €187 billion per year, and wages and job opportunities are expected to increase as the potential of larger markets is unlocked. Finally, consumer prices are expected to decline for many products because EU and US companies could reduce production costs when unnecessary regulatory overlaps are removed and scale economies in production can be further utilised.

Lowering tariff barriers and aligning regulatory regimes would produce two key economic benefits. Firstly, businesses of all sizes would face lower production costs when regulatory barriers to trade are reduced and certification systems and conformity assessments are aligned. Since TTIP does not seek to legislate, this will not affect EU or US standards unless explicitly approved by their respective legislative bodies. This process would increase the competitiveness of EU and US companies, not only in the transatlantic market but also vis-à-vis third countries. Secondly, market access for EU firms on the US market and US firms on the EU market would increase, creating new opportunities and increased competition. At a time of ongoing economic uncertainty in Europe, the prospect of lower production costs and increased market access through TTIP provides a compelling incentive for EU countries to conclude an ambitious agreement with the US.

TTIP: a strategic opportunity for the EU and US

Beyond its economic potential, TTIP also represents a strategic opportunity for the two negotiating parties. As Hamilton and Quinlan (2015) note, *"as globalization proceeds and emerging markets rise… transatlantic markets are shifting from a position of pre-eminence to one of predominance—still considerable, but less overwhelming than in the past"*.[15] In light of this shift and the pressures arising from growth in emerging economies, TTIP could benefit the EU and US by helping their economies remain competitive and innovative. Moreover, TTIP – with its focus on regulatory convergence and the advancing of a global rules-based trading system, and leaning upon the combined weight of the EU and US economies – could set the 21st century standard for a rules-based international trade arena. This is particularly relevant since TTIP is envisaged to be a living agreement: the Regulatory Cooperation Body (RCB) is proposed to be established through TTIP to continually identify areas for improved transatlantic regulatory cooperation consistent with the high levels of protection for workers, consumers and the environment enjoyed in both the EU and the US. In doing so, they would also be able to raise the bar in these areas for the rest of the world to follow.

KEY FINDINGS ACROSS EU MEMBER STATES

Introduction

This section assesses the current status of the transatlantic economic relationship and the extensive links that exist between EU Member States and the US. This will provide the context for an assessment of the expected effects of TTIP on EU Member States. To calculate our findings, we use a methodology that extends and enhances the most reliable approach to-date: Computable General Equilibrium (CGE) modelling. Utilising the ambitious scenario from the CEPR study – comparable to the limited scenario in the Ecorys study – we assume a 100 percent mutual reduction in tariff rates between the EU and US, a 25 percent reduction (on average) in regulatory divergences and behind-the-border non-tariff measures (NTMs) (i.e. assuming that over a 10-15 year period the US could move one quarter towards the level of the EU Internal Market), as well as a 50 percent reduction in barriers to procurement. The EU and US have stated that they agreed to remove around 97 percent of tariffs, with the ambition to remove more. This implies that the actual level of ambition in the negotiations is very close to what we model in this study. In addition, as a deviation from the aforementioned two studies, we assume NTMs in agriculture, and have them reduced marginally through TTIP – marginally, because of the highly sensitive nature of these kinds of differences in regulatory systems including, but not limited to, touching upon food and consumer safety issues.

Transatlantic links between EU Member States and the US

The EU and the US are closely linked in a variety of ways, particularly from an economic standpoint; a fact not all Europeans may be fully aware of. The US is, after all, the main (extra-EU) export destination for EU goods and services, and is by far the most important source of and destination for FDI. The transatlantic economy as a whole sustains some 15 million jobs on both sides of the Atlantic. The depth of job creation from the transatlantic economy is much higher between the EU and the US than with any other economic partner. However, the scope for further integration is still significant. A recent SME survey by Ecorys and the European Commission on the value of EU SME participation in the transatlantic economy, conducted as part of the Trade Sustainability Impact Assessment, finds empirical evidence of some 1,200 barriers for EU SMEs seeking to trade with the US. It concludes that EU SMEs could benefit substantially from the reduction of regulatory barriers through TTIP, opening up the US market to many of these small firms.[16]

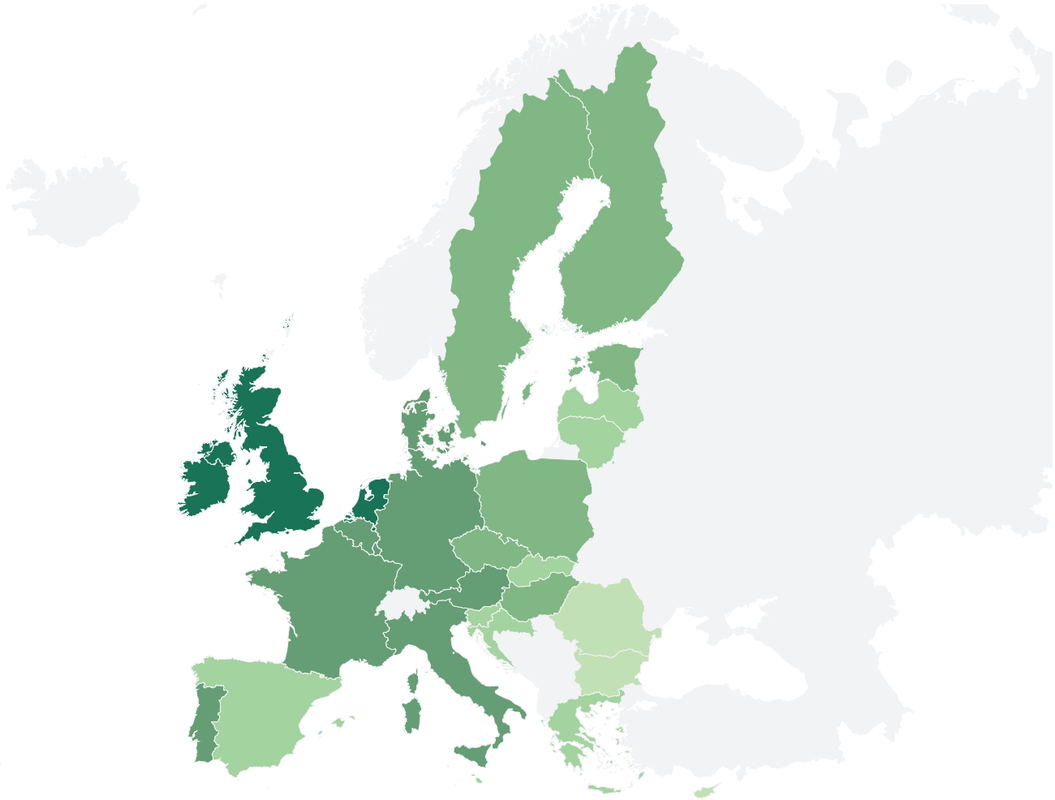
Transatlantic goods and services: an EU Member State perspective

In 2011, the EU as a whole sent 18.5 percent of its goods exports and 25.9 percent of its services exports to the US. For each Member State, these percentages vary, as Map 1 shows for goods exports. Most dependent on the US in terms of exports of goods are Ireland (56.7 percent), the UK (24.5 percent), The Netherlands (22.0 percent), Austria (19.7 percent), and Denmark (19.4 percent). Germany (17.1 percent), Italy (16.5 percent), and France (16.1 percent) are also heavily integrated with the US. Bulgaria and Cyprus have relatively the lowest ratio of goods exports to the US.

When we look at services exports from the various EU Member States to the US (see Map 2), we see that Ireland (43.5 percent), Luxembourg (37.7 percent), the UK (33.5 percent), Belgium (30.1 percent) and Italy (26.5 percent) have the highest services export shares. Bulgaria (6.6 percent) and Finland (6.0 percent) have the lowest shares. We also observe that the depth of services trade with the US is greater than that of goods trade relative to other countries in the world – testimony to the so-called "sleeping giant" that services represent for the transatlantic economy. Moreover, variance across EU Member States is not as high in services trade as it is in goods trade. In services trade, we see a group of EU Member States with high relative service trade shares (many of them linked to large financial and insurance service industries), namely, Ireland, the UK, Luxembourg, Germany and Belgium.

MAP 1

Goods exports per EU Member State to the US (% of total goods exports)

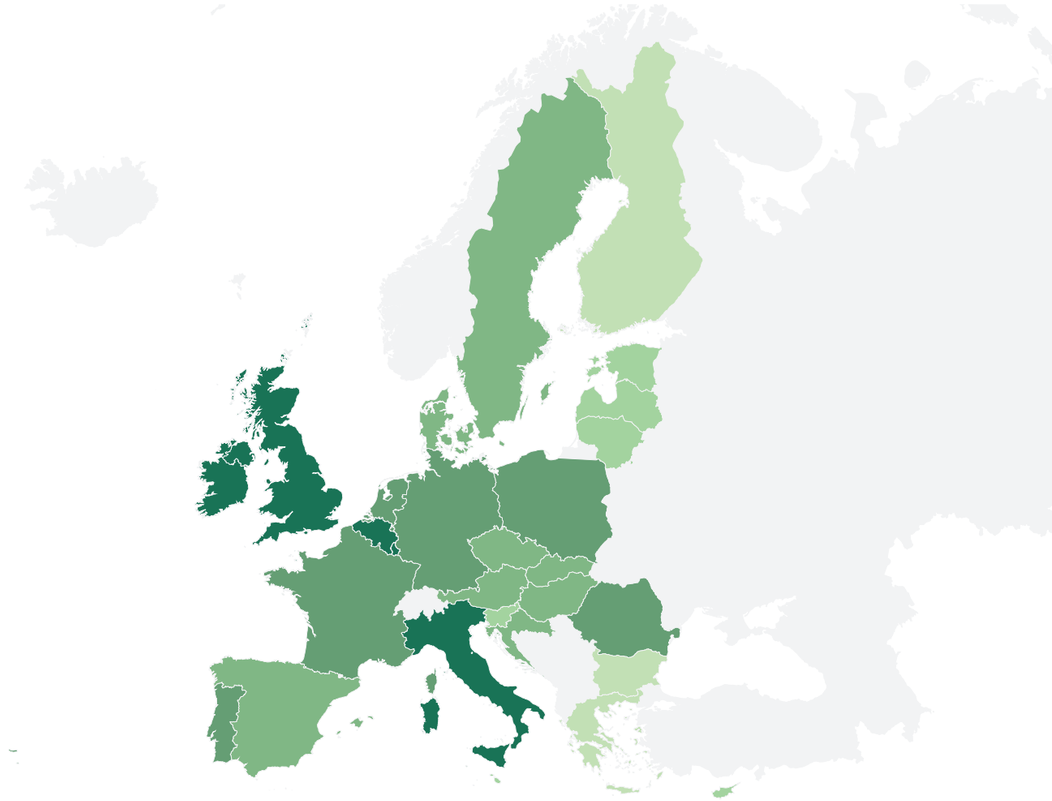


>20.0% | 15.0 -20.0% | 12.5-15.0% | 10.0-12.5% | <10%

56.7%	Ireland	**19.7%**	Austria	**14.3%**	Sweden	**12.3%**	Lithuania	**8.9%**	Romania
24.5%	UK	**19.4%**	Denmark	**14.0%**	Estonia	**12.3%**	Croatia	**6.0%**	Bulgaria
22.0%	The Netherlands	**18.0%**	Luxembourg	**13.5%**	Czech Republic	**12.1%**	Greece	**3.2%**	Cyprus
		17.1%	Germany	**12.9%**	Poland	**11.8%**	Malta		
		16.5%	Italy	**12.5%**	Hungary	**11.6%**	Slovakia		
		16.1%	France	**12.5%**	Finland	**11.3%**	Spain		
		15.8%	Belgium			**10.7%**	Latvia		
		15.5%	Portugal			**10.4%**	Slovenia		

MAP 2

Services exports per EU Member State to the US (% of total services exports)



>25% | 20.0-25.0% | 15.0-20.0% | 10.0-15.0% | <10.0%

43.5%	Ireland	**24.3%**	Portugal	**19.8%**	Austria	**14.0%**	Malta	**8.6%**	Greece
37.7%	Luxembourg	**23.6%**	Germany	**19.7%**	Spain	**12.7%**	Lithuania	**6.6%**	Bulgaria
33.5%	UK	**23.2%**	Romania	**18.4%**	Slovakia	**12.2%**	Latvia	**6.0%**	Finland
30.1%	Belgium	**21.5%**	The Netherlands	**17.5%**	Denmark	**10.9%**	Cyprus		
26.5%	Italy	**20.1%**	France	**16.6%**	Czech Republic	**10.2%**	Estonia		
		20.1%	Poland	**16.3%**	Hungary	**10.2%**	Slovenia		
				15.2%	Croatia				
				15.0%	Sweden				

FIGURE 1
EU Member State outward FDI to the US (% of total outward FDI)

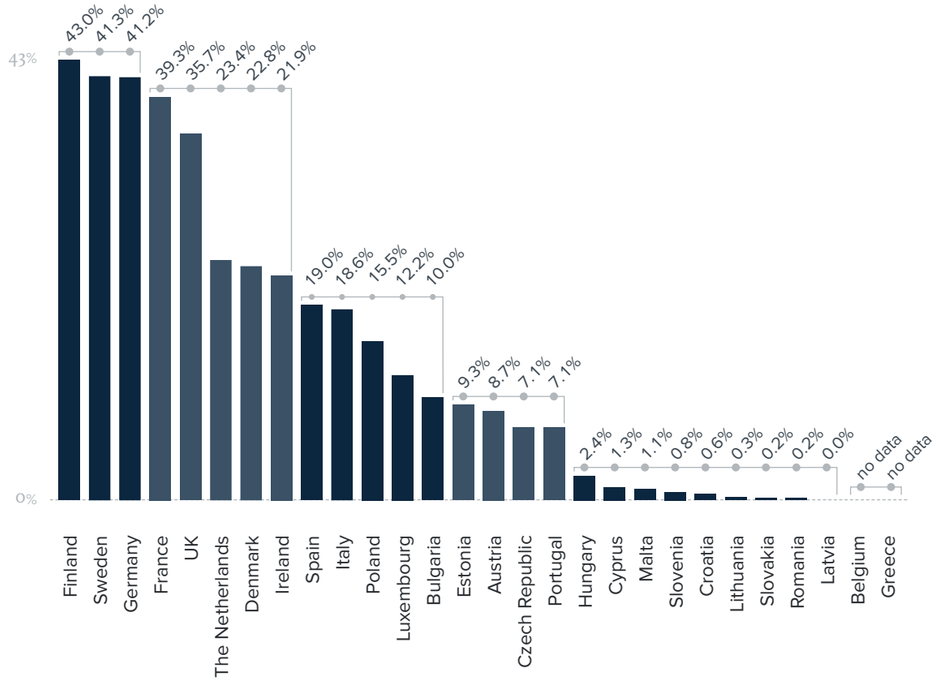
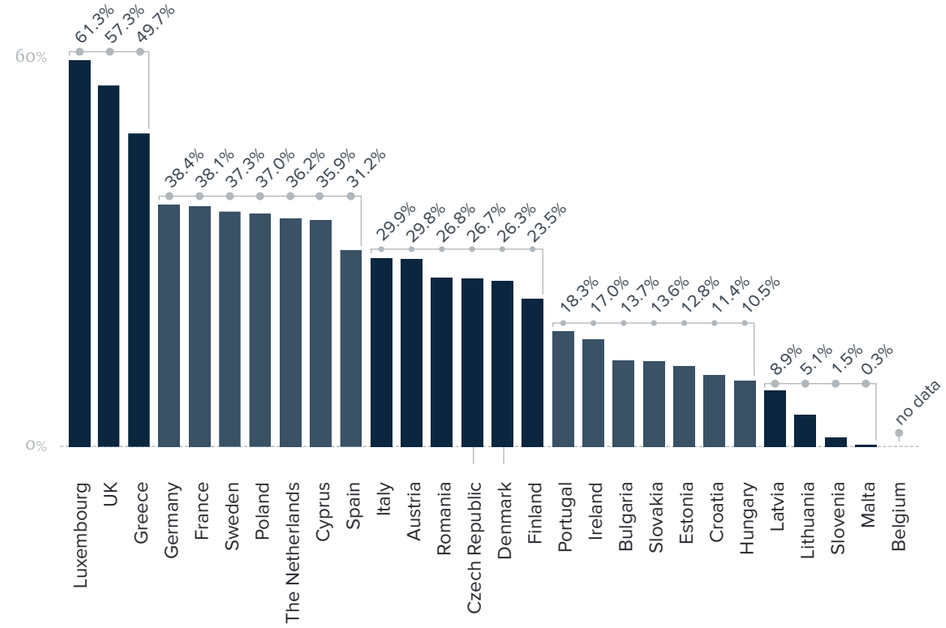


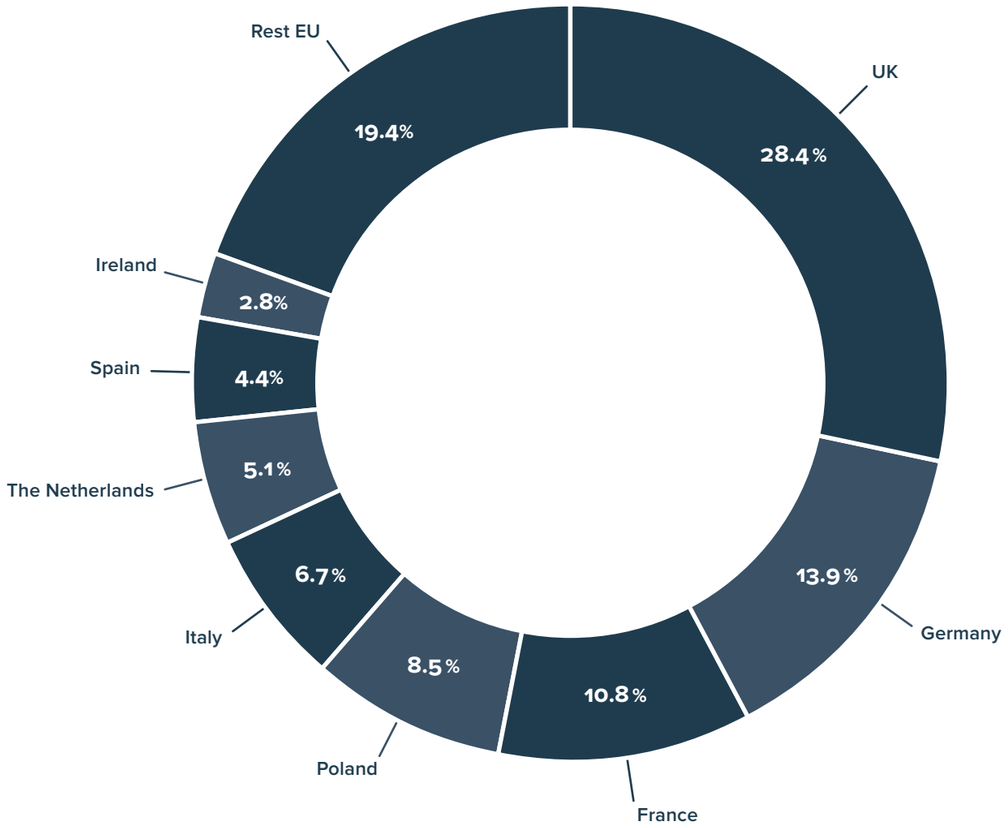
FIGURE 2
EU Member State inward FDI from the US (% of total inward FDI)



Transatlantic FDI: an EU Member State perspective

Foreign direct investment flows and related foreign affiliate sales constitute the deepest element of the transatlantic economy. Figures 1 and 2 demonstrate that the EU-US relationship is extraordinarily strong in this regard. For Finland, Sweden and Germany, over 40 percent of total outward FDI goes to the US. For Luxembourg and the UK, over 50 percent of FDI comes from the US. In 2012, Greece also saw over 50 percent of FDI come from US firms investing there. It is clear that EU firms in most Member States have relatively deep investment ties with the US and US firms with EU Member States.

FIGURE 3
Individual EU Member State shares of jobs created by US-controlled firms in the EU



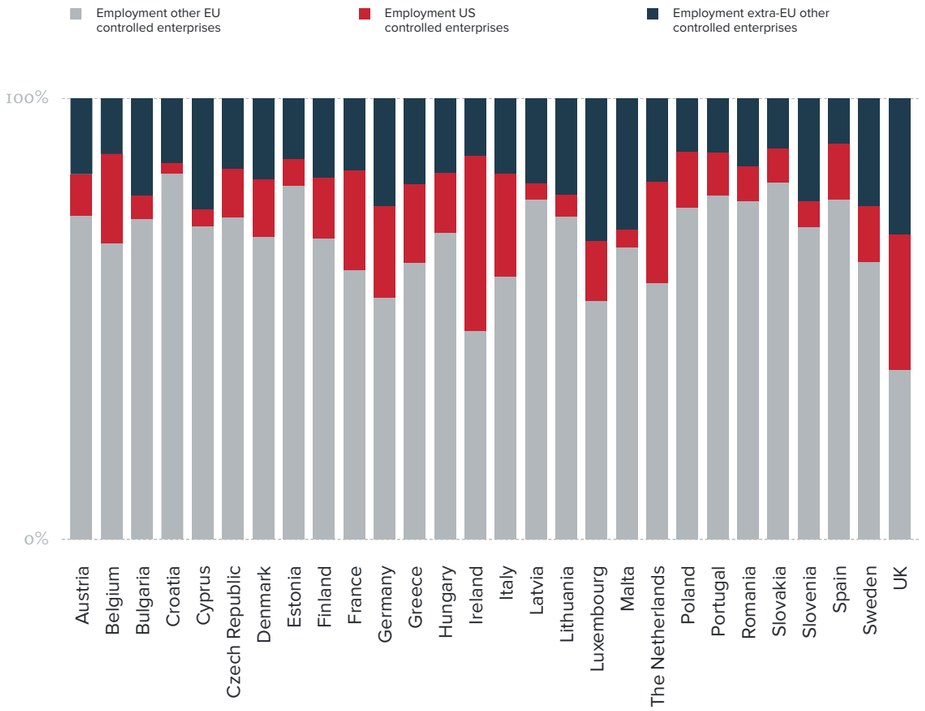
Transatlantic jobs: an EU Member State perspective

In 2011, some 6.0 million jobs were created in the EU by US-controlled firms. Figure 3 shows how these jobs are split across Member States. The UK is host to 28.4 percent of the total number of jobs generated by US-controlled enterprises in the EU, followed by Germany (13.9 percent), France (10.8 percent), Poland (8.5 percent), Italy (6.7 percent), The Netherlands (5.1 percent), and Spain (4.4 percent).

In Italy and Spain, two periphery Member States who currently have relatively high unemployment rates, the numbers of jobs created by US-controlled firms matter – some 400,000 and 265,000 respectively.

FIGURE 4

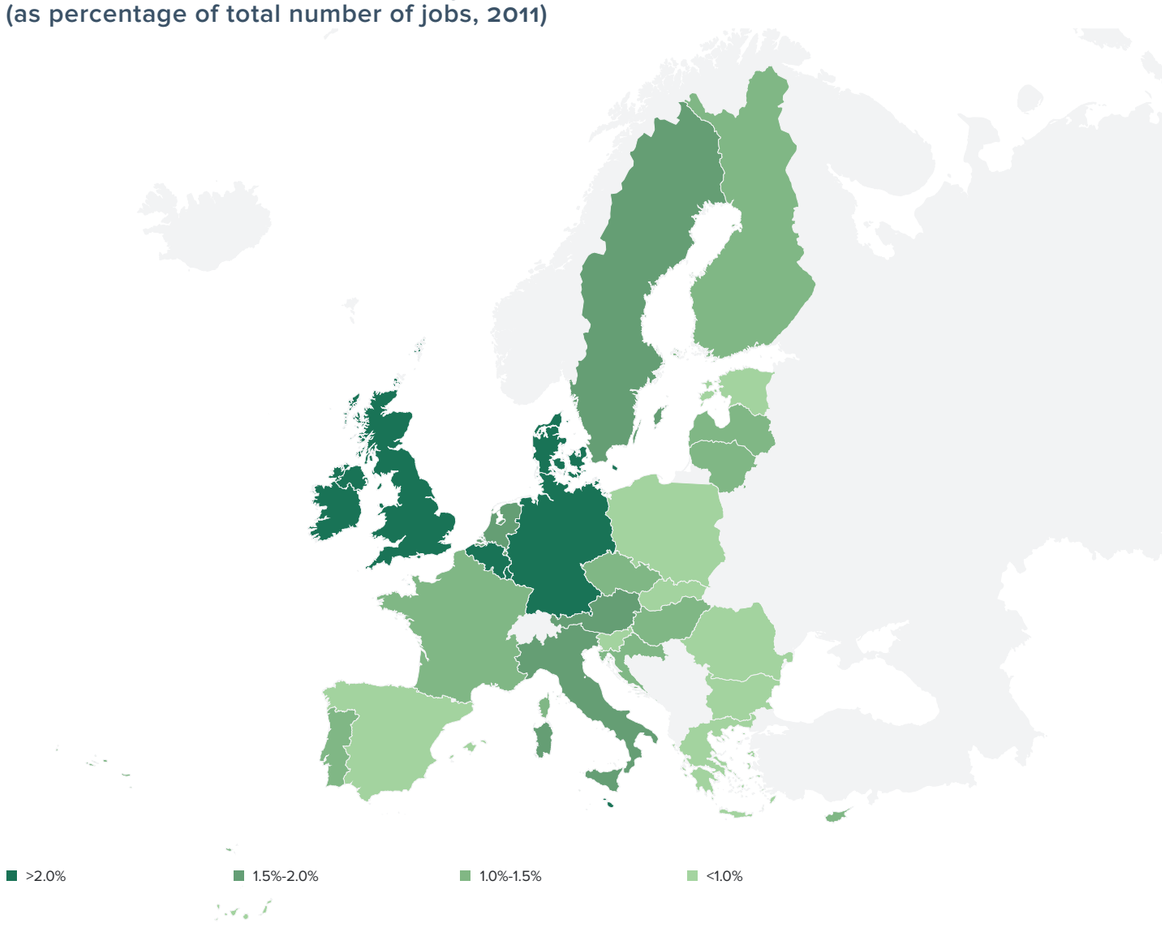
Jobs per EU Member State created by US controlled firms (as percentage of total of total jobs created by foreign controlled firms)



Figures 4 and 5 show the jobs generated across the Atlantic in EU Member States. In Figure 4, we present, per Member State, the share of jobs created by US-controlled firm jobs as part of the total number of jobs generated by foreign-controlled firms (100 percent). From Figure 4 we draw two main conclusions. First, the EU's Internal Market is the most powerful foreign affiliate job engine: the bulk of foreign jobs in each Member State comes from firms from other Member States. Second, for most EU countries, the number of jobs created by US-controlled enterprises is the largest for all firms from non-EU countries – in most cases larger than the total sum of jobs created by all other countries combined. For Ireland, 40.0 percent of all jobs from foreign-controlled firms come from US-controlled companies, for the UK this number is 31.4 percent, for Italy 23.3 percent, France 23.3 percent, The Netherlands 23.0 percent, Germany 20.9 percent, Belgium 20.4 percent and Greece 18.5 percent. Croatia (2.9 percent) and Cyprus (3.9 percent) have the lowest shares.

MAP 3

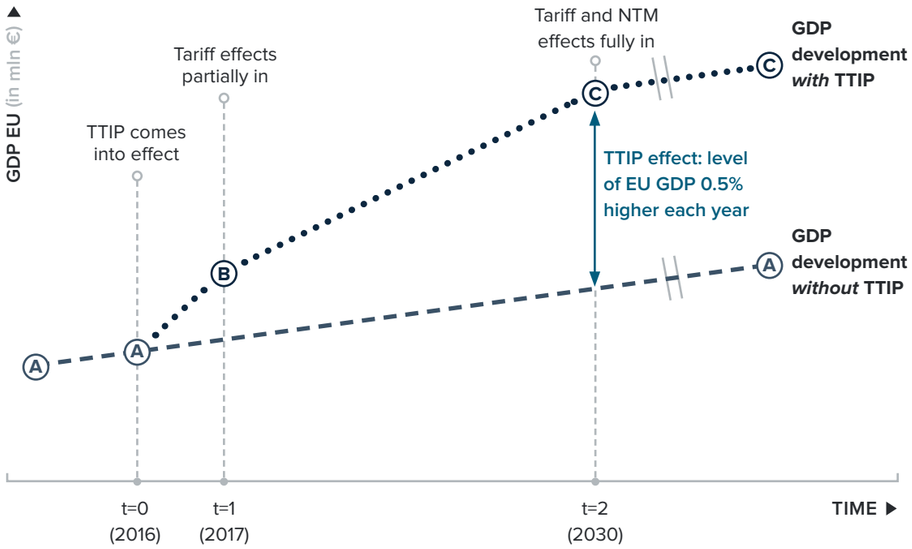
Jobs per EU Member State producing exports to US (as percentage of total number of jobs, 2011)



14.8%	Ireland	**1.9%**	The Netherlands	**1.4%**	Estonia	**0.9%**	Slovakia
3.5%	Luxembourg	**1.8%**	Austria	**1.4%**	Hungary	**0.9%**	Spain
2.8%	Malta	**1.8%**	Sweden	**1.2%**	Czech Republic	**0.9%**	Poland
2.5%	Denmark	**1.5%**	Italy	**1.2%**	Lithuania	**0.8%**	Romania
2.4%	UK			**1.2%**	Portugal	**0.8%**	Slovenia
2.3%	Germany			**1.2%**	France	**0.7%**	Bulgaria
2.1%	Belgium			**1.2%**	Latvia	**0.7%**	Greece
				1.1%	Finland		
				1.0%	Cyprus		
				1.0%	Croatia		

Map 3 shows the number of jobs in each EU Member State that is affiliated with exports to the US. If we keep in mind that the large majority of jobs is employed for domestic production, these job shares are highly significant. A significant 14.8 percent of all Irish jobs are employed to produce exports to the US, followed by Luxembourg (with 3.5 percent), Malta (2.8 percent) and Denmark (2.5 percent).

FIGURE 5
TTIP effect on the level of EU GDP



TTIP impact on EU Member States – a macro-economic perspective

TTIP effects on national income (GDP)

Having gone through the Global Financial Crisis and subsequently the Eurozone Sovereign Debt Crisis, the level of economic activity in the EU is still depressed. This can be seen in recent growth estimates, high unemployment rates (especially in some Member States) and deflationary pressures. TTIP, with an expected positive impact on EU national income levels of 0.5 percent each year, provides an important opportunity to boost GDP in this context.

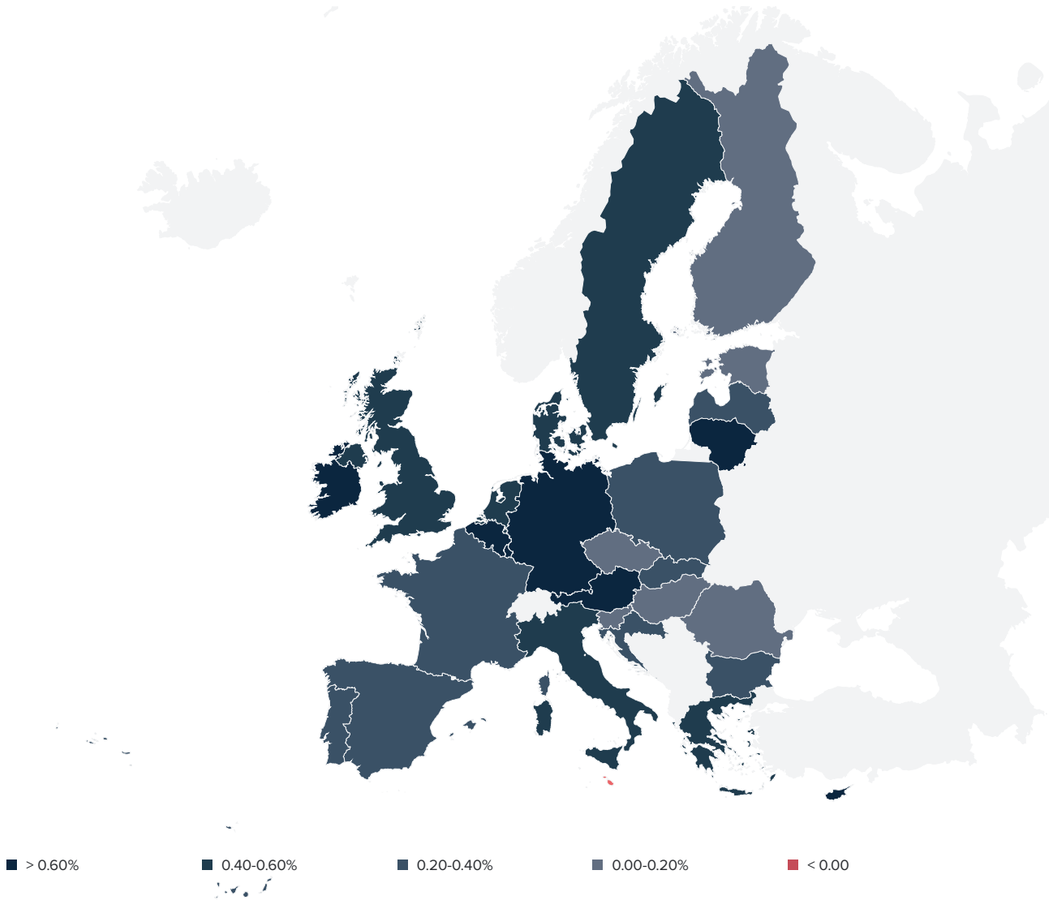
The expected results in terms of GDP and economic growth gains are often misunderstood. TTIP (as with any trade agreement) is expected to generate a *permanent level* increase in GDP. This is illustrated in Figure 5.

Without TTIP, income (GDP) in the long run is expected to slowly increase (on average) as depicted by (dotted) line Ⓐ-Ⓐ-Ⓐ. Without TTIP, we would expect income to reach this level by 2030 or beyond. If, however, at time t=0 (let's say 2016 – for argument's sake only), TTIP is signed into effect, economic effects take place. First, tariffs are (gradually) removed and some NTMs are tackled – having an immediate effect on income levels (solid line Ⓐ - Ⓑ). Beyond 2016, a "living TTIP agreement" continues to address other NTMs until 25 percent of them are aligned. This is seen in the gradual increase in GDP between t=1 (2016) and t=2 (2030) – solid line Ⓑ-Ⓒ. From 2030 onwards – when all TTIP effects are assumed to have taken effect – income levels have risen by 0.5 percent (blue vertical line at t=2). From t=2 (2030) onwards, solid line Ⓒ - Ⓒ increases in parallel to Ⓐ-Ⓐ– with the same growth rate, but with higher income levels, each year again. This means that when the effects of TTIP have been fully implemented, income levels in the EU in a post-TTIP world are expected to be 0.5 percent higher in the EU (on average) and 0.4 percent in the US, as compared to a future without an agreement. This implies that TTIP can create €119 billion in extra welfare gains *each year* for the EU, and an extra €95 billion *each year* for the US.

The slopes of the lines Ⓐ-Ⓐ-Ⓐ and Ⓐ-Ⓐ-Ⓑ-Ⓒ - Ⓒ indicate the growth rates. From 2016 until 2030, the EU and US will experience – temporarily – higher growth rates (Ⓐ-Ⓑ and Ⓑ-Ⓒ) leading to (permanent) higher income levels. After 2030, growth rates are again the same as before 2016 (i.e. Ⓒ-Ⓒ is parallel to Ⓐ-Ⓐ again) but the EU and US have become richer.

When the overall EU GDP effect of 0.5 percent is disaggregated to the level of the individual EU country, the Member State expectations for increases in income vary, from an expected increase in economic activity of +1.6 percent for Lithuania to -0.3 percent for Malta.

MAP 4
Estimated income level increases in EU Member States following TTIP

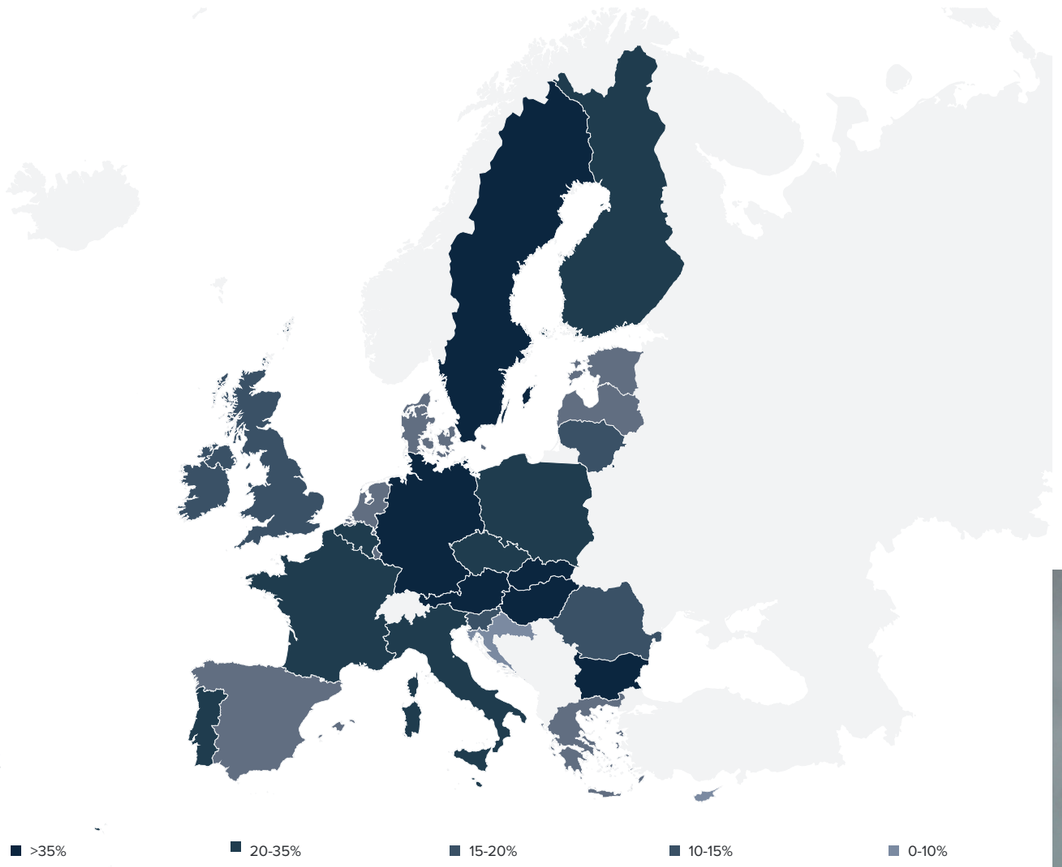


1.6%	Lithuania	**0.5%**	Italy	**0.4%**	Portugal	**0.2%**	Finland	**-0.3%**	Malta
1.3%	Ireland	**0.5%**	The Netherlands	**0.4%**	Slovenia	**0.2%**	Romania		
1.1%	Belgium	**0.5%**	Slovakia	**0.4%**	Latvia	**0.1%**	Estonia		
0.9%	Austria	**0.5%**	Sweden	**0.4%**	Spain	**0.1%**	Hungary		
0.7%	Luxembourg	**0.4%**	UK	**0.4%**	Poland	**0.1%**	Czech Republic		
0.6%	Cyprus	**0.4%**	Greece	**0.3%**	Bulgaria				
0.6%	Germany	**0.4%**	Denmark	**0.3%**	France				
				0.2%	Croatia				

The reason for the national income decline for Malta is that it is situated along the Chinese-Western European trade route and trades more with China and Canada. As such, some small trade diversion effects away from China and Canada – who are not in TTIP – could explain this decline. The changes in income levels are especially encouraging for recent crisis-hit countries including Ireland (+1.3 percent), Cyprus (+0.6 percent), Italy (+0.5 percent) and Greece (+0.4 percent). Map 4 shows the findings for all EU Member States.

When analysing the differences in income level gains between the different Member States, it becomes clear that the Member State economies that benefit the most from an ambitious TTIP agreement are those that are most integrated economically with the US. We find that the deeper the economic relationship between a Member State and the US, the higher the expected positive income level effects. This implies that EU governments can positively affect the degree to which TTIP will impact on them by enhancing the depth of their country's level of integration with the US.

MAP 5
Estimated export increases in EU Member States from TTIP



>35% | 20-35% | 15-20% | 10-15% | 0-10%

116% Slovakia
64% Austria
48% Sweden
38% Germany
36% Hungary
36% Bulgaria

27% Belgium
26% Poland
26% Portugal
25% Finland
23% Czech Republic
23% Malta
23% France
21% Italy

19% Slovenia
19% Ireland
18% Romania
17% UK
17% Lithuania

15% Latvia
14% The Netherlands
13% Denmark
13% Estonia
13% Greece
13% Spain
10% Luxembourg

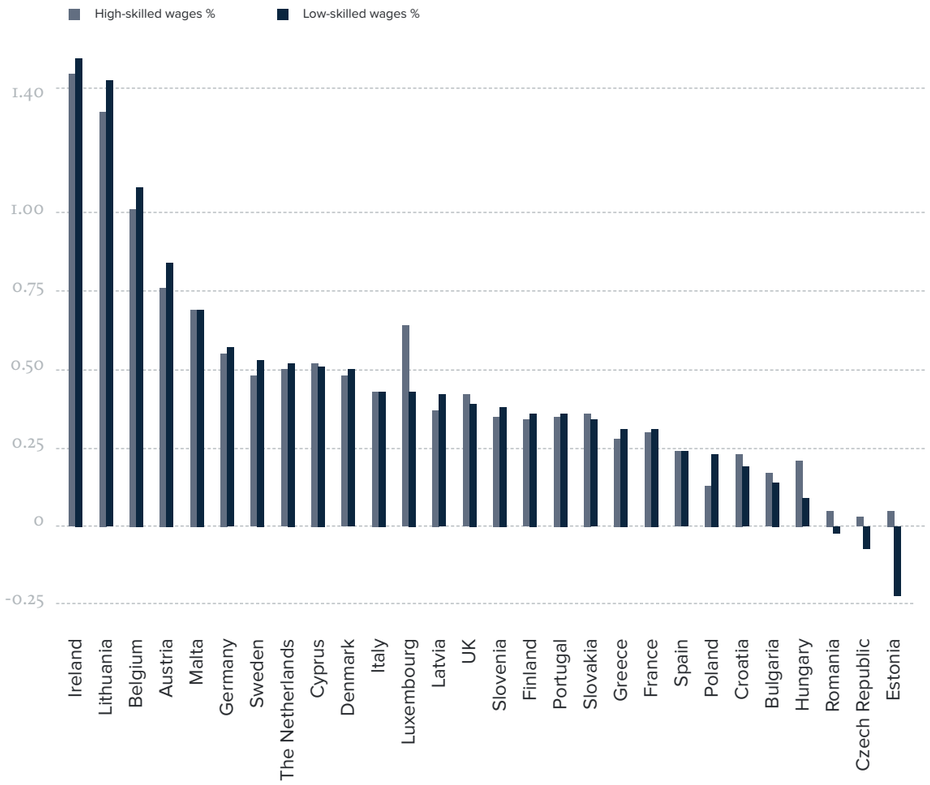
9% Croatia
5% Cyprus

TTIP effects on exports

Tariff reductions and alignment of regulatory regimes in TTIP lower barriers to trade. As such it should not come as a surprise that an ambitious TTIP would increase exports for all EU countries. Unlike the relatively small differences in income level effects between the Member States, export effects from TTIP vary a lot from country to country. Nevertheless, one constant is that for all Member States, exports are expected to increase. The range of estimated export increases ranges from Slovakia's +116 percent and Austria's +64 percent, to Croatia's +9 percent and Cyprus' +5 percent. The results for all Member States are presented in Map 5.

Map 5 also unveils a pattern in the export effects of TTIP when comparing across Member States. EU Member States trade the most with other EU countries – a consequence of the EU Internal Market, relatively the most integrated free trade area in the world. What drives the results presented in Map 5 is that those Member States that are most integrated horizontally in global value chains with the US – i.e. those that have the deepest horizontal FDI relationship – see the largest increases in exports. This is especially true for EU countries that have sizeable trade flows in the largest tradable goods sectors, such as motor vehicles and chemicals. This is why we see the aforementioned export increases for Slovakia and Austria, and +48 percent for Sweden, +38 percent for Germany, +36 percent for Hungary, +35 percent for Bulgaria, +27 percent for Belgium, +26 percent for Poland, and +23 percent for France.

FIGURE 6
Estimated wage increases in EU Member States from TTIP



TTIP effects on wages

EU citizens understandably want to know what the real consequences of TTIP will be for them once it has taken effect. The model we have used allows us to analyse wage effects at the aggregate economy level, and effects on employment at the sectoral level. We have made this model choice for three reasons. First, the wage-version of the CGE model that we use assumes that economies are at full employment. This means that we do not attribute to TTIP any massive positive employment effects from the current high unemployment rates. As such, this type of CGE model leads to a more conservative estimate of the potential impact of TTIP. Second, if EU citizens want to understand what the effects of TTIP could be for them, the way TTIP affects their wages is one of the most direct ways to show this. Third, in looking at the TTIP effect on wages, we can look at how TTIP affects wage inequality (i.e. differences in wage increases between low- and high-skilled workers in each Member State) – something we could not do otherwise.

CEPR (2013) has shown that on average wages in the EU for low-skilled workers will go up by 0.51 percent and wages for high-skilled workers by 0.50 percent. This means that wage inequality in the EU – on average – is not expected to increase when comparing wages of high- and low-skilled workers – as Figure 6 also shows. Across different EU Member States, however, there are divergences in wage effects. Irish, Lithuanian, Belgian and Austrian citizens are expected to experience the highest relative wage increases. For example, for high-skilled Irish citizens, TTIP is equivalent to a 1.4 percent salary raise, while for low-skilled Irish citizens this number is 1.5 percent. For Romania, Czech Republic and Estonia, we find that low-skilled workers' wages are expected to decrease marginally.

TTIP effects on consumer prices

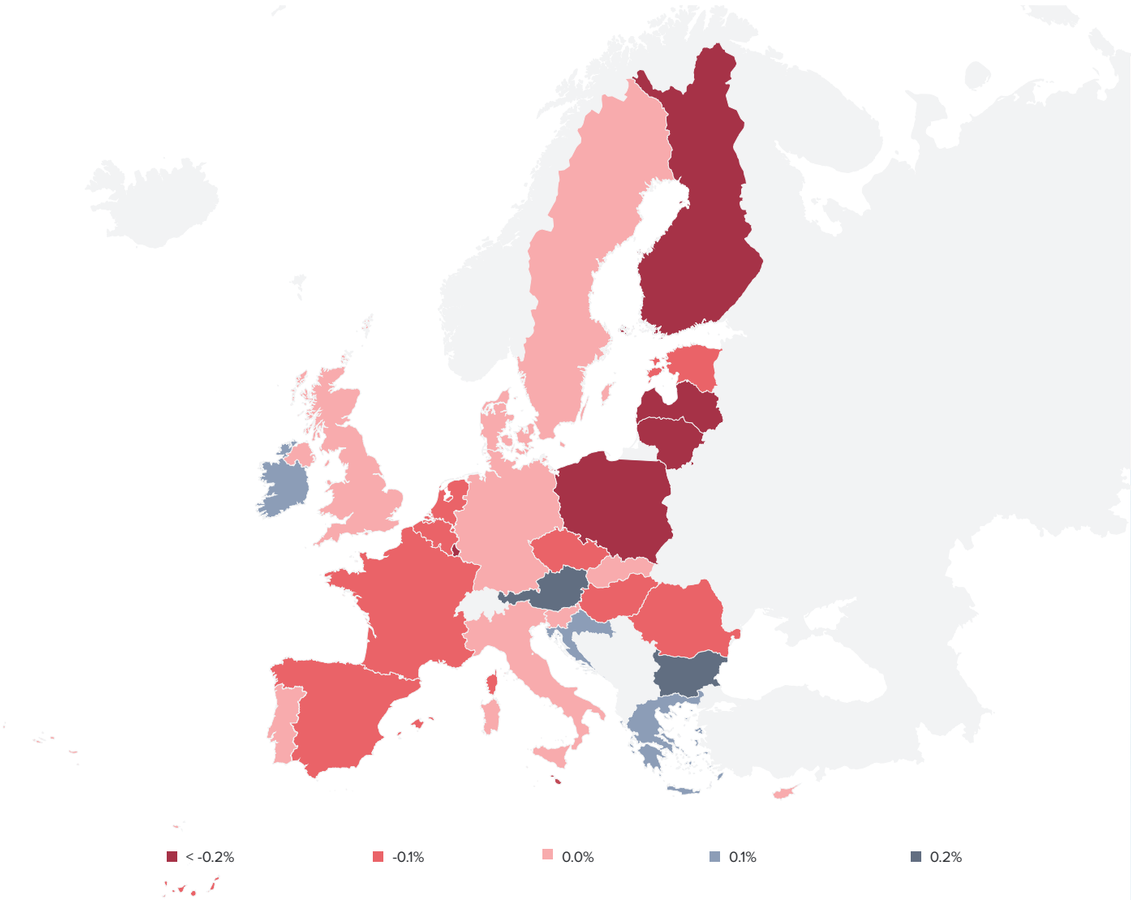
Consumers are rightfully concerned with the level of prices for the products they buy – from cars and train tickets to prices for their groceries. An ambitious TTIP agreement that focuses on regulatory alignment and coherence in areas of equivalent standards will lead to lower costs for EU and US producers, since unnecessary overlaps in regulatory regimes are reduced. If companies pass these costs on to consumers – which they do if consumers are sensitive to the prices for these goods and services – the consequences of TTIP can be a mix of lower prices for consumers and more profit and turnover for companies.

Map 6 on the next page shows the expected average consumer price effect of TTIP at EU Member State level. We see that Lithuania, with a -0.9 percent decrease, is expected to see the largest drop in consumer prices. This is due mainly to a drop in prices for motor vehicles (-3.8 percent), food products (-1.3 percent) and business services (-0.7 percent). A total of 18 out of 28 EU Member States will experience a drop in consumer prices, including in Poland (-0.3 percent), Malta (-0.2 percent), Latvia (-0.2 percent), Luxembourg (-0.2 percent), and Finland (-0.2 percent).

For the remaining Member States, consumer price increases are small, with only Ireland (+0.1 percent), Austria (+0.2 percent) and Bulgaria (+0.2 percent) witnessing price increases of 0.1 percent or more. In Bulgaria and Austria, the price increases derive from agriculture, forestry and fisheries price increases (+1.4 percent and 0.4 percent respectively), and processed foods (+0.5 percent and 0.4 percent respectively). Overall, consumers are expected to pay 0.1 percent less for their products following the implementation of TTIP.

MAP 6

Estimated consumer price effects in EU Member States following TTIP



-0.9%	Lithuania	**-0.1%**	Czech Republic	**0.0%**	Slovakia	**0.1%**	Croatia	**0.2%**	Austria
-0.3%	Poland	**-0.1%**	Estonia	**0.0%**	Portugal	**0.1%**	Greece	**0.2%**	Bulgaria
-0.2%	Malta	**-0.1%**	Belgium	**0.0%**	Germany	**0.1%**	Ireland		
-0.2%	Latvia	**-0.1%**	France	**0.0%**	Slovenia				
-0.2%	Luxembourg	**-0.1%**	Hungary	**0.0%**	Denmark				
-0.2%	Finland	**-0.1%**	Romania	**0.0%**	Italy				
		-0.1%	Spain	**0.0%**	UK				
		-0.1%	The Netherlands	**0.0%**	Cyprus				
				0.0%	Sweden				

INSERT 1: AN OVERVIEW AND COMPARISON OF TTIP STUDIES

By Prof. dr. Jacques Pelkmans[1]

"TTIP is expected to yield positive effects on GDP and probably on jobs. This is a welcome effect, but it is not correct to portray TTIP as just a growth and jobs machine."

[1] Prof. Dr. Jacques Pelkmans is Professor of Economics at the College of Europe and Senior Research Fellow at the Centre for Economic Policy Studies (CEPS).

CENTRE FOR EUROPEAN POLICY STUDIES

Summary

TTIP is expected to yield positive effects on GDP and probably on jobs. This is a welcome effect, but it is not correct to portray TTIP as just a "growth and jobs machine". TTIP is expected to have slightly positive effects for third countries, but this is because the negative effect of trade diversion due to tariff elimination is more than compensated by positive spill-over effects (although how sizeable the latter are exactly is unknown). Reducing the costs of Technical Barriers to Trade drives most of the economic gains, so the regulatory part of TTIP is critical. Export growth is strong both ways, which leads to gains from scale economies and specialisation. When we compare the different studies carried out on TTIP, we conclude that several studies are outliers and not very plausible. The GED Bertelsmann study is too optimistic because it assumes that the depth of the economic relationship in the Transatlantic Economy post-TTIP will be as deep as the EU Internal Market. That is highly unlikely. A very sombre macro study by Capaldo is simply not credible, methodologically flawed and misleading: proven trade effects are assumed not to take place, assumptions assume away likely effects, and the drivers of the results have nothing to do with TTIP *per sé*. The studies done by CEPR, Ecorys and CEPII use the most appropriate method and yield the most plausible results for potential TTIP effects. In-depth papers addressing "worrisome" aspects of TTIP are increasingly available on for example, consumer protection levels and public services. Documents available suggest that "fears" in these areas have been overplayed.

Section 1. The economic effects of TTIP from a policy perspective

The innovative approaches that form the core of TTIP are fascinating, in part because of their extraordinarily complex and wide ranging nature. For this reason, any position on economic effects has to be formulated with care and some reticence. Studying the economic effects of regulatory change of the instruments, methods of enforcement or redundant "red tape" (not the regulatory objectives, as they are not at issue) is extremely demanding for economic methodologies and data. Here are a few considerations which need to be taken into account if one wishes to understand the TTIP economic debate:

a. Empirical economic analysis of trade liberalisation, multilaterally or bilaterally, rarely yields more than modest effects on GDP. To expect high percentage changes of GDP for the EU and the US from TTIP is unrealistic, the more so as both the US and the EU are already quite open economies. would all be candidates for higher growth effects over the medium term than TTIP. This point should not be misinterpreted, however: TTIP can generate an addition of the EU and US earning capacity including in times of zero or slow growth. This of course would be welcome. Second, with respect to jobs, TTIP is a medium to long run policy initiative and therefore the effects on jobs, especially regionally and in some sectors, have to be assessed against a "natural degree" of job change that takes place every day. If effects on exports are positive, as we expect, then net job creation, too, should be expected overall. This is not to say that localised or sectoral job effects will not occur, and indeed some might even be negative, but these are likely to be minimal and spread out over time. Other factors driving job change will have a much more significant impact on labour mobility than any TTIP effect. The Commission notes that the average job change in the EU is approximately 37 per 1000 citizens per year, whereas the CEPR study on TTIP can be expected to yield 7 job changes per 1000 citizens over a ten year period (or a mere 2 percent of the former). Such a marginal effect on labour mobility will be easily absorbed in the labour market and would become invisible once one also takes technical and structural efficiency changes over a (say) 10 year period into account.[17]

b. This has direct consequences for how one "reads" TTIP in economic policy terms. Although TTIP is likely to have (net) positive effects on the economies of the US and the EU in terms of GDP, to present TTIP as a "growth and jobs machine" is not appropriate. This is for two reasons. First, economists think in terms of economic policy alternatives to generate economic growth, and there is little doubt that upskilling of parts of the labour force, certain structural reforms (including deleveraging), reversing the decline of infrastructural investments in Europe or pursuing the further deepening of the EU internal services market

c. Another debate that has emerged focuses on the likely effects of TTIP on third countries; unsurprising given that a transatlantic free trade agreement between two economic giants is not likely to be irrelevant for third countries. It is therefore important that TTIP is, or must become, "open". Traditionally, in economics, the Third country effects in economics are traditionally referred to as "trade diversion" effects, having a negative effect on economic welfare. Several studies have included trade diversion effects and some, mostly moderate, negative effects in third countries have been found. If and in so far as TTIP will be successful in addressing regulatory barriers (mainly, TBTs), however, such trade diversion may well be compensated by so-called "cross-border spill-overs". Direct spill-overs emerge from regulatory harmonisation or facilitation under Most Favoured Nation, and thereby would also benefit third countries without any further action. For instance, if a Mutual Recognition Agreement (MRA) is agreed in TTIP that is comparable to the one in CETA (Chapter 27), and also excludes origin rules, third countries may benefit from using designated conformity assessment bodies (CABs) in one TTIP partner only, for exports to both. The reduced costs for them contribute to the positive spill-over effects. Indirect spill-overs do require action, namely, domestic alignment in (selected) regulatory domains that benefit from the (more) common rules or standards in TTIP. Direct and indirect spill-overs are bound to occur if a comprehensive TTIP is concluded that benefits the negotiating partners, compensating for the negative effect of trade diversion.

Section 2. The economic effects of TTIP in the literature

The empirical findings of major studies differ in minor and major aspects. Therefore, the CEPR study of 2013 will serve as the benchmark. The results of the CEPR study will then be compared with three alternative studies: the CEPII study by Fontagné et al.[18], the GED Bertelsmann study by Felbermayr et al.[19] and the Capaldo study[20]. As an additional measure, the author will then briefly refer to other empirical work.

The CEPR Study (Francois et al., 2013)

Apart from tariff reductions (mainly to zero), the economic gains are driven by the estimates of TBT costs for market access to the partner, and their expected reductions due to TTIP. This estimation of TBT costs has proven exceptionally difficult. Ecorys has provided the basis upon which other research is subsequently based.[21] According to the CEPR study, an ambitious TTIP agreement (with 25 percent of the TBT costs removed) will increase EU GDP by nearly 0.5 percent per year and US GDP by 0.4 percent. Bilateral EU exports to the US would go up by 28 percent and overall EU exports would increase almost 6 percent (see infographic 1). The main driver of these gains is the reduction in TBTs. CEPR assume considerable spill-overs (both direct and indirect), which directly impact on the result. For example, exports to the rest of the world also increase for both countries and this is a secondary consequence of positive spill-overs.

There is likely to be some job creation of probably several hundred thousand jobs or more, however, this is not assessed in the CEPR study (the European Commission, meanwhile, projects several millions of US-export related jobs).[22] Wages are expected to rise about 0.5 percent. For specific sectors, EU bilateral exports rise strongly (in percentage terms) in motor vehicles (+149 percent), metal products (including pressure vessels, +68 percent), processed foods (+45 percent), and electrical machinery and chemicals (each some +35 percent). But export growth is typically two-way: US exports in motor vehicles rise some 347 percent (from a lower base), followed by metal products (+88 percent), processed foods (+75 percent), and electrical machinery (+44 percent). However, when it comes to sectoral output changes, the one sector not benefitting is electrical machinery: its output declines both in the US and in the EU. This is odd given that the EU electrical machinery sector is a highly competitive sector. On the whole, one observes that TTIP will have a net positive effect at the sectoral level, especially for certain sectors, and that this permeates through the economy as well as supporting services trade.

The CEPII study (Fontagné et al., 2013)

Contrasting the CEPR study with the CEPII study is interesting because the latter is more modest in cutting TBT costs, but also finds much higher TBT costs estimates. Two opposite effects may play a role: with much lower spill-overs and less TTIP ambition, results are likely to be more modest, but with much higher TBT costs, their lowering is bound to be relatively more effective. The conspicuous difference is seen in estimates for the agriculture sector: bilateral exports of both the EU and US are in the range of 140 to 160 percent for the industry in the CEPII analysis, compared to a much more modest 15 to 20 percent range in the CEPR study.

The GED Bertelsmann study (Felbermayr et al., 2013)

Felbermayr, Heid and Lehwald reach very different conclusions. The authors find a 5 percent increase in EU GDP and no less than a 13 percent increase in US GDP. It would seem as if this study is confirming the concept of TTIP as a "growth and jobs machine". Unfortunately, these super-gains are not plausible. The 13 percent figure is 25 times the increase found by the other two leading studies. For the EU, the 5 percent increase in GDP is about ten times what the CEPR study finds. In addition, trade diversion is assumed to be very high. For Canada, the negative impact on GDP would be incredibly high (- 9 percent), while a significant negative effect on the EU Internal Market is also predicted. The main reason for these results is that the authors (erroneously) assume a transatlantic market as if it were similar to the EU Internal Market and NAFTA. This is not the case.

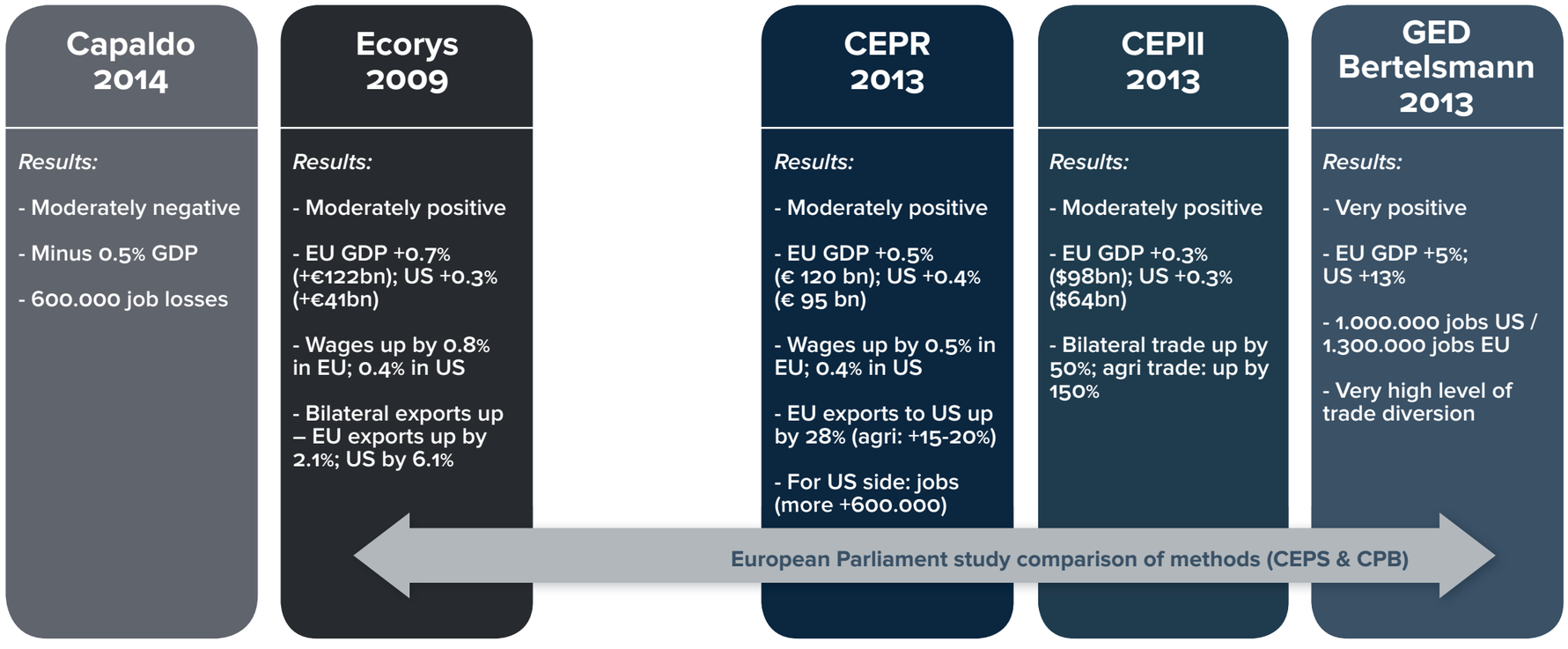
The Capaldo study (2014)

A study by Capaldo finds only negative results, whether for GDP, employment or income distribution, etc.[23] However, this study suffers from a profound credibility problem, both for methodological reasons, assumptions, and the insertion of two policy responses which have nothing to do with TTIP. Trade effects that we know occur in practice (e.g. gains from scale economies) are assumed away upfront, trade costs are not measured and what ought to be measured, is "borrowed" from the CEPR study (which is a typical multi-sectoral multi-countries CGE model designed for assessing trade effects). What is said to be studied in macro-economic terms is influenced by two ad-hoc assumptions about policy that are unrelated to TTIP.
A strong rebuff of the Capaldo study was given by ECIPE in a detailed assessment of its methodology.[24] Leading economist Dani Rodrik subsequently published a blog post on May 4, 2015 maintaining that the methodology utilised by Capaldo in his study was unsuitable for assessing expected long-run TTIP effects.[25] The fact that Capaldo works for the ILO has meant that his study is mistakenly taken for an official ILO-study. In fact, the ILO has distanced itself from authoring this study and uses in its own economic assessments also the same CGE model approach used by CEPR, CEPII and Ecorys.

Other studies

There are a wealth of different studies that explore the various alleged "worrying" aspects of TTIP. Thorough reviews of expected effects on consumer protection levels and objectives are provided by Diels and Thorun[26] and by Woolcock, Holzer and Kusmu.[27] Both conclude that such fears of a negative impact from TTIP on consumer protections are unfounded. Another debate has emerged with respect to "public services". The intention of the EU negotiators has been consistently clear: to "safeguard EU governments' right to run public services as they wish" (The European Commission published this in a TTIP factsheet[28]). New TTIP texts should strike a balance between the requisite level of legal clarity and the necessary legal flexibility. Krajewski and Kynast[29] offer remedies in textual proposals that would provide sufficient protection where needed. According to Heydon and Woolcock[30], there are indications that US negotiators would find a general exclusion of public services acceptable.

Infographic 2: Economic studies on TTIP



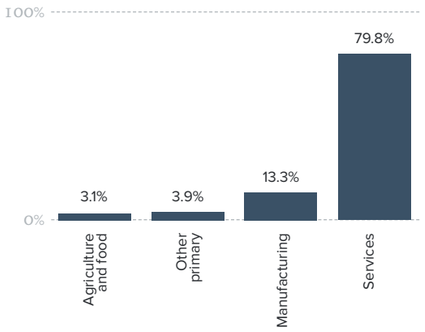
THE CURRENT SITUATION AND EXPECTED TTIP EFFECTS FOR

AUSTRIA
BELGIUM
BULGARIA
CROATIA

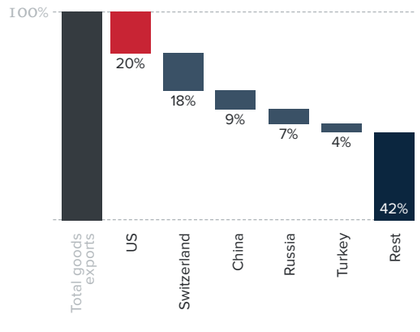
Austria and the US – The current situation

Austria is predominantly a services economy. Just under 100.000 Austrian jobs come from US controlled firms active in Austria. The US is the main (extra-EU) goods export destination (20 percent of goods exports) and services export destination (20 percent of services exports) for Austria. The main export sectors for Austria to the US are machinery, motor vehicles, chemicals and pharmaceuticals, and insurance services.

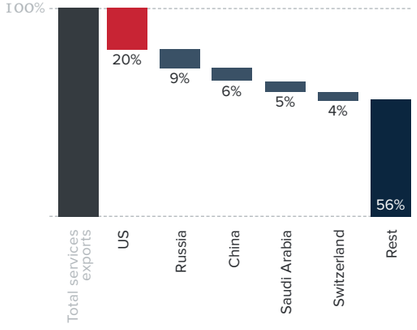
Structure of the Austrian economy (%)



Total (extra-EU) Austrian goods exports (%)



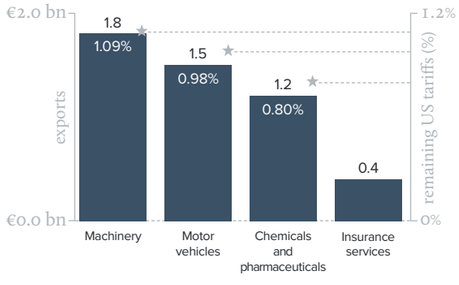
Total (extra-EU) Austrian services exports (%)



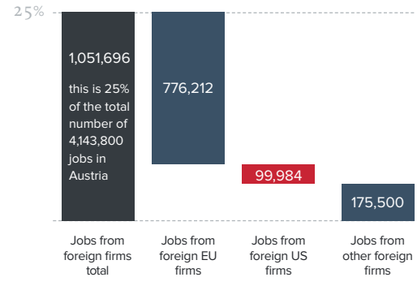
Investments between Austria and the US (€ bn)

Year	Investments from the US to Austria	Investments from Austria to the US
2009	8.2	3.5
2010	9.0	3.6
2011	9.4	3.6
2012	11.6	4.3

Top Austrian export sectors to US (€ bn) and remaining US tariffs (%)



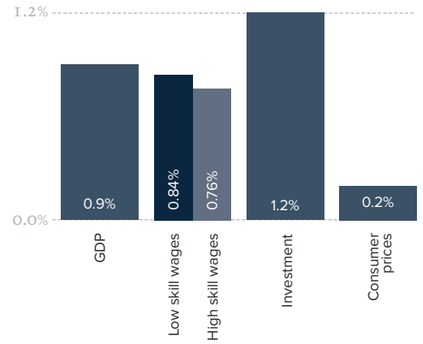
Jobs in Austria from foreign controlled firms



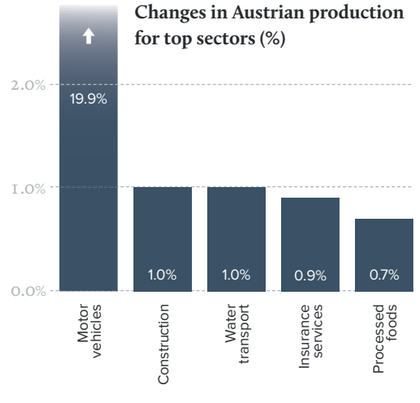
Austria and TTIP – Expected effects

Austria has a strong economic relationship with the US, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and more investments. GDP is expected to increase permanently by 0.9 percent. Exports to the US are expected to increase by 64 percent.

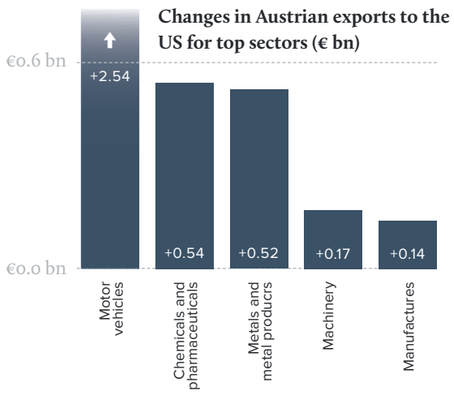
Macro-economic changes in Austria due to TTIP (%)



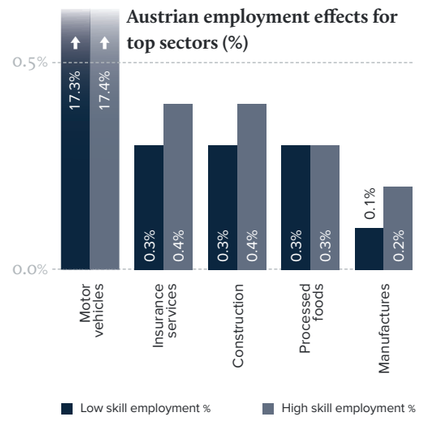
Changes in Austrian production for top sectors (%)



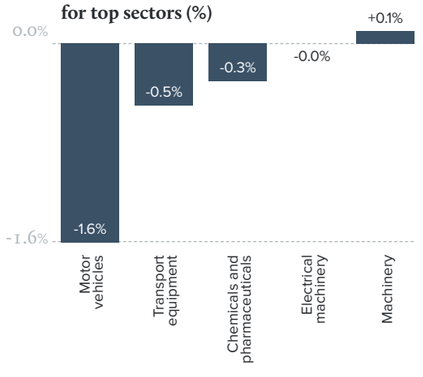
Changes in Austrian exports to the US for top sectors (€ bn)



Austrian employment effects for top sectors (%)



Changes in Austrian consumer prices for top sectors (%)



For Austria, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

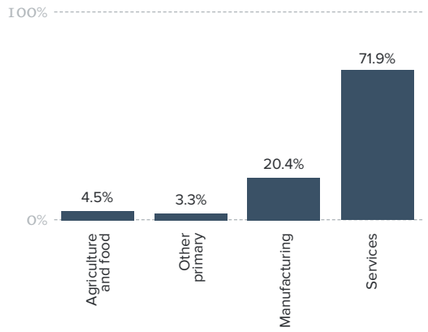
- The motor vehicles, construction, water transport, insurance and processed foods sectors are expected to grow most, but electrical machinery and metal production may decline;
- TTIP could facilitate a significant increase in production of car parts and components by firms in Austria (+19.9 percent) and exports in this sector are expected to increase by €2.5 bn;
- For Austrians the price for an average car could go down by 1.6 percent because of TTIP.

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

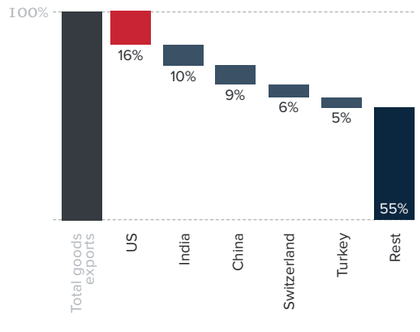
Belgium and the US – The current situation

Belgium is predominantly a services economy, but it also has a significant manufacturing base. Around 162.000 Belgian jobs come from US controlled firms active in Belgium. The US is the main (extra-EU) goods export destination (16 percent of goods exports) and services export destination (30 percent of services exports) for Belgium. The main export sectors for Belgium to the US are chemicals and pharmaceuticals, manufactures, machinery, and business and ICT services.

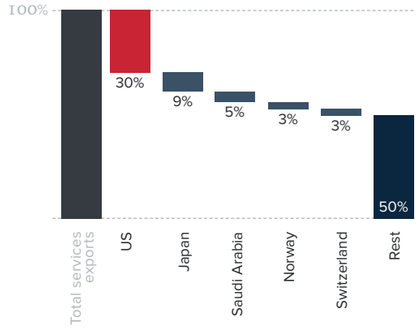
Structure of the Belgian economy (%)



Total (extra-EU) Belgian goods exports (%)



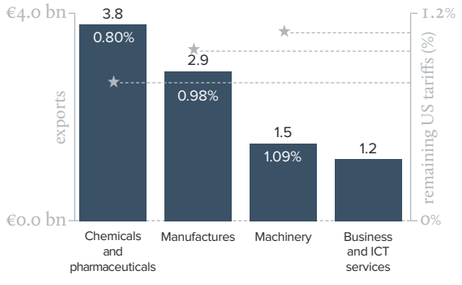
Total (extra-EU) Belgian services exports (%)



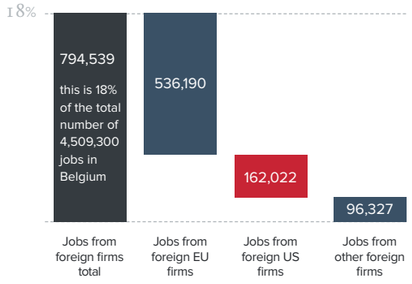
Investments between Belgium and the US (€ bn)

Year	Investments from the US to Belgium	Investments from Belgium to the US
2009	34.9	27.1
2010	34.5	54.6
2011	38.1	58.9
2012	37.3	70.5

Top Belgian export sectors to US (€ bn) and remaining US tariffs (%)



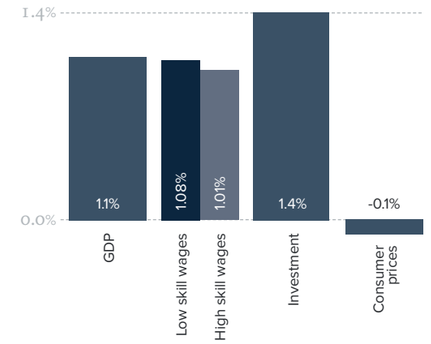
Jobs in Belgium from foreign controlled firms



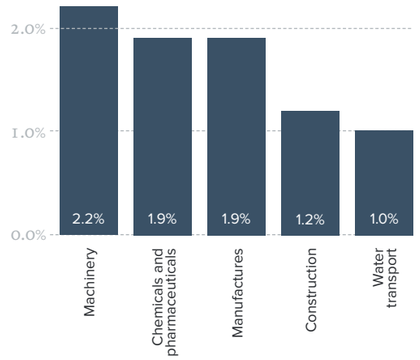
Belgium and TTIP – Expected effects

Belgium has a strong economic relationship with the US, and TTIP would contribute to significant additional income, higher wages for both low- and high-skilled workers, more investments, and lower consumer prices. GDP is expected to increase permanently by 1.1 percent. Exports to the US are expected to increase by 27 percent and consumer prices will go down marginally by 0.1 percent.

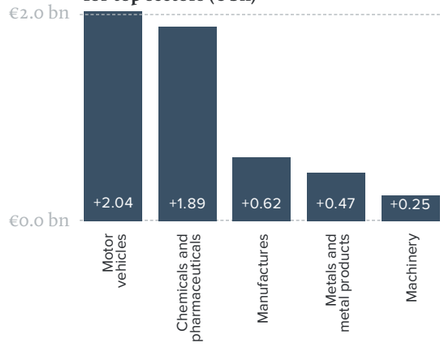
Macro-economic changes in Belgium due to TTIP (%)



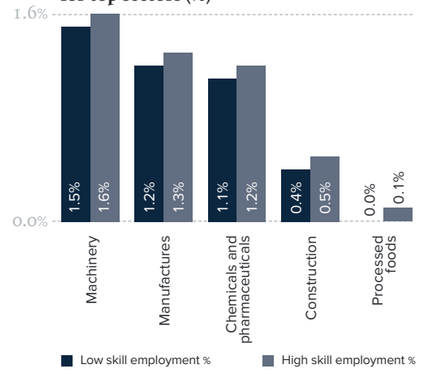
Changes in Belgian production for top sectors (%)



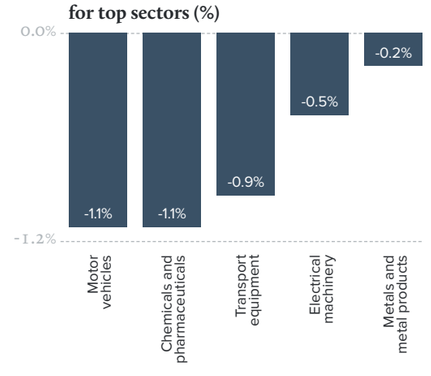
Changes in Belgian exports to the US for top sectors (€ bn)



Belgian employment effects for top sectors (%)



Changes in Belgian consumer prices for top sectors (%)



For Belgium, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

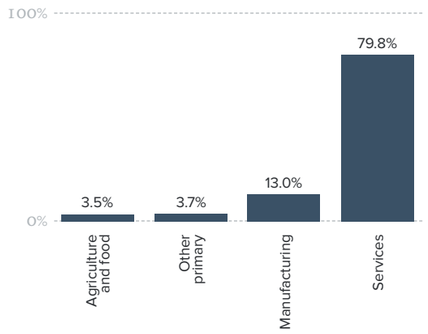
- The machinery, chemicals, manufactures, construction and water transport sectors are expected to grow most, but electrical machinery may decline;
- TTIP could facilitate a significant increase in production of machinery (+2.2 percent) in Belgium. Belgian exports in the automotive sector (+€2.0 bn) and chemicals (+€1.9 bn) could increase significantly also;
- For Belgians, prices for especially cars and car parts (-1.1 percent) and chemical products (-1.1 percent) are expected to go down because of TTIP.

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

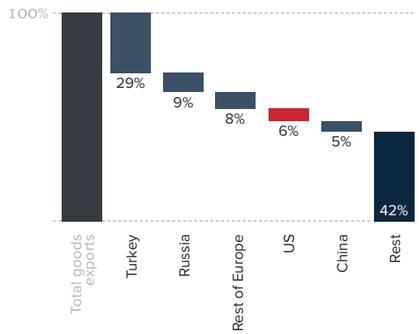
Bulgaria and the US – The current situation

Bulgaria is predominantly a services economy. Around 24.000 Bulgarian jobs come from US controlled firms active in Bulgaria. The US is the 4th most important (extra-EU) goods export destination (6 percent of goods exports) and also the 4th most important (extra-EU) services export destination (7 percent of services exports, after – for example – Russia with 13 percent) for Bulgaria. The main export sectors for Bulgaria to the US are machinery, chemicals and pharmaceuticals, business and ICT services and clothing.

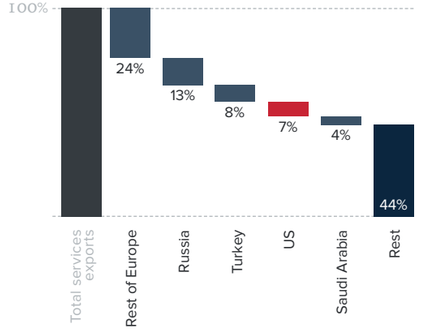
Structure of the Bulgarian economy (%)



Total (extra-EU) Bulgarian goods exports (%)



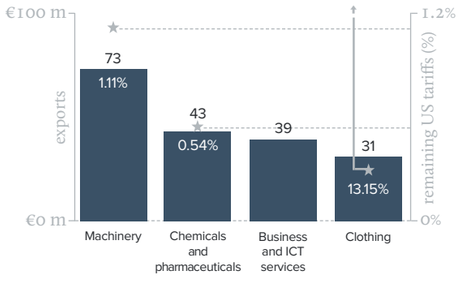
Total (extra-EU) Bulgarian services exports (%)



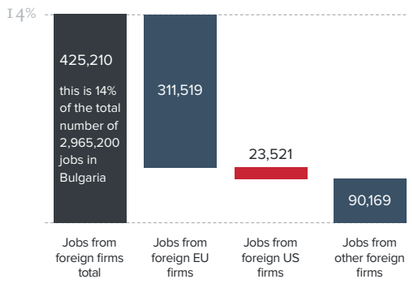
Investments between Bulgaria and the US (€ m)

Year	Investments from the US to Bulgaria	Investments from Bulgaria to the US
2009	253	N/A
2010	283	1
2011	N/A	N/A
2012	355	N/A

Top Bulgarian export sectors to US (€ m) and remaining US tariffs (%)



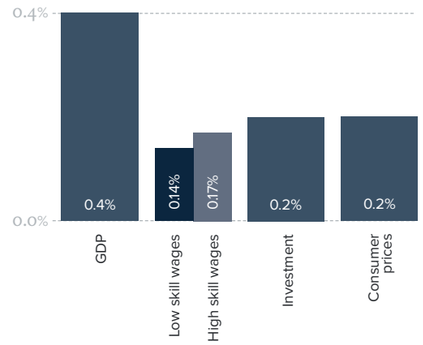
Jobs in Bulgaria from foreign controlled firms



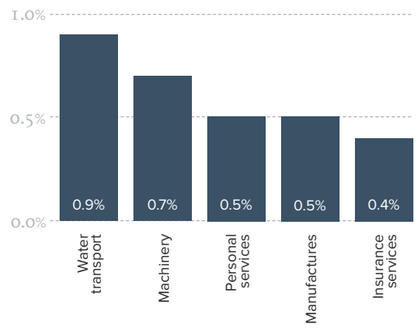
Bulgaria and TTIP – Expected effects

Bulgaria does not have a very strong economic relationship with the US. Nonetheless, TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and more investments. GDP is expected to increase permanently by 0.4 percent, and exports to the US are expected to increase by 35 percent.

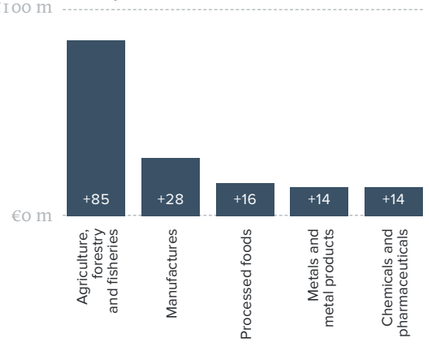
Macro-economic changes in Bulgaria due to TTIP (%)



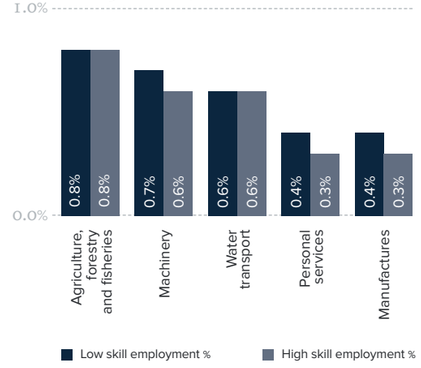
Changes in Bulgarian production for top sectors (%)



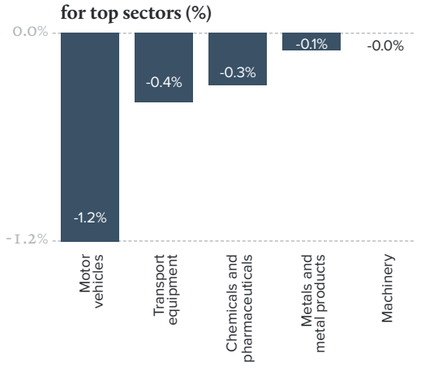
Changes in Bulgarian exports to the US for top sectors (€ m)



Bulgarian employment effects for top sectors (%)



Changes in Bulgarian consumer prices for top sectors (%)



For Bulgaria, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

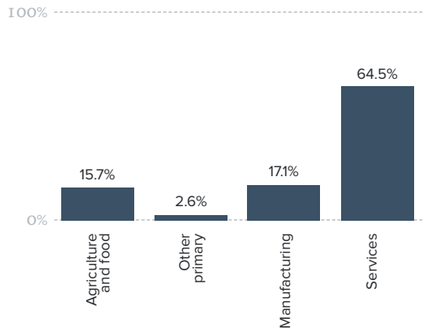
- The water transport, machinery, personal services and manufactures sectors are expected to grow most, but the motor vehicles sector may decline;
- TTIP could facilitate a significant increase in production of water transport services (+0.9 percent) and machinery (+0.7 percent). Agriculture, forestry and fisheries are poised to see the largest export increase (of +€85 m) and wage increases (+0.8 percent). For Bulgarians, the price for an average car could go down by 1.2 percent because of TTIP.

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

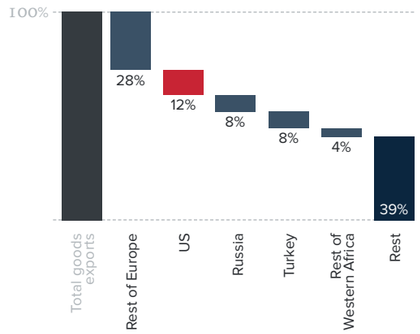
Croatia and the US – The current situation

Croatia is predominantly a services economy, but the Croatian agricultural and food and manufacturing sectors are also important. Around 5.000 Croatian jobs come from US controlled firms active in Croatia. The US is the 2nd largest (extra-EU) goods export destination (12 percent of goods exports) and main (extra-EU) services export destination (15 percent of services exports) for Croatia. The main export sectors for Croatia to the US are chemicals and pharmaceuticals, other transport services, machinery, and business and ICT services.

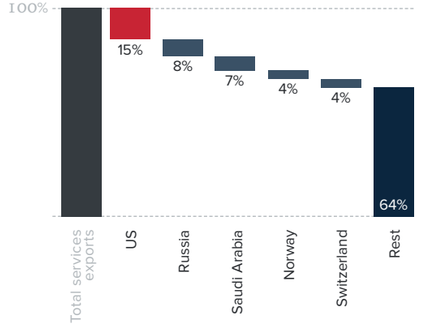
Structure of the Croatian economy (%)



Total (extra-EU) Croatian goods exports (%)



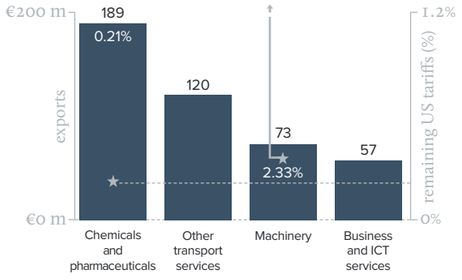
Total (extra-EU) Croatian services exports (%)



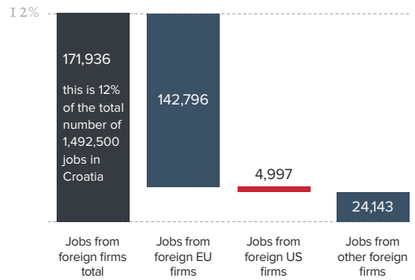
Investments between Croatia and the US (€ m)

Year	Investments from the US to Croatia	Investments from Croatia to the US
2009	57	N/A
2010	-22	5
2011	-28	N/A
2012	121	-10

Top Croatian export sectors to US (€ m) and remaining US tariffs (%)



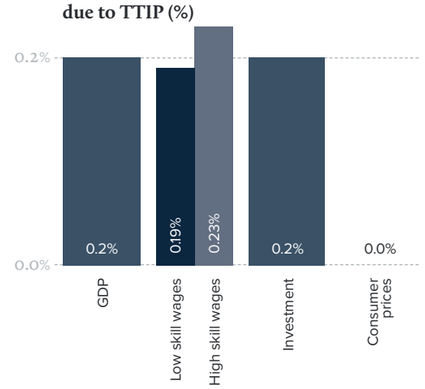
Jobs in Croatia from foreign controlled firms



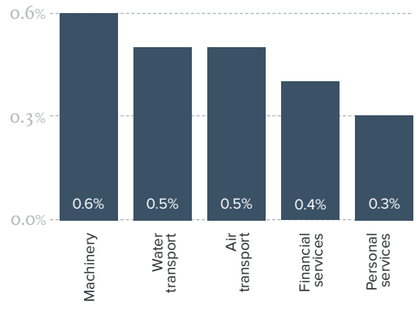
Croatia and TTIP – Expected effects

Croatia does not have a very strong economic relationship with the US. Nonetheless, TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and more investments. GDP is expected to increase permanently by 0.2 percent and exports to the US are expected to increase by 9 percent, while consumer prices will remain the same.

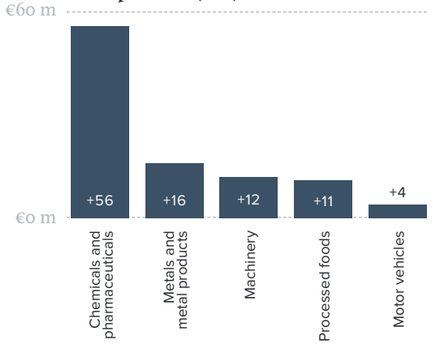
Macro-economic changes in Croatia due to TTIP (%)



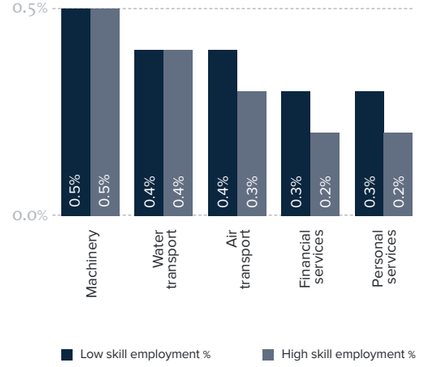
Changes in Croatian production for top sectors (%)



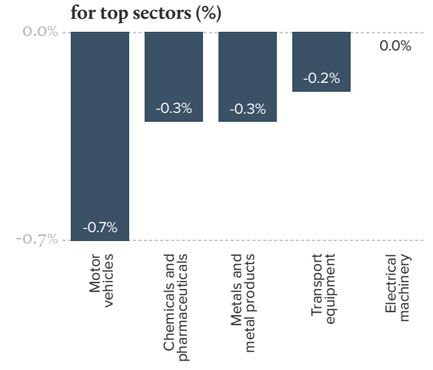
Changes in Croatian exports to the US for top sectors (€ m)



Croatian employment effects for top sectors (%)



Changes in Croatian consumer prices for top sectors (%)



For Croatia, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- The machinery, water transport, air transport, financial services and personal services (e.g. tourism) sectors are expected to grow most, but electrical machinery and motor vehicles are poised for a decline;
- TTIP could facilitate a significant increase in production of water and air transport services. Chemicals and pharmaceuticals account for the largest export increase (+€56 m);
- For Croatians prices are expected to decrease most for motor vehicles (-0.7 percent), and chemicals and pharmaceuticals (-0.3 percent).

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

INSERT 2:
TTIP AND THE EU INTERNAL MARKET

By Prof. dr. Patrick Messerlin[2]

"TTIP could actually contribute to liberalising the EU Internal Market as well as the transatlantic market to some degree. Such an outcome might have the significant positive knock-on effect of pushing the EU towards greater integration."

[2] Prof. Dr. Patrick Messerlin is professor of economics (emeritus) at Sciences Po, Paris.

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Summary

What are the expected potential effects of TTIP for the EU Internal Market? This is an important question, given that the EU Internal Market forms the cornerstone of the EU in both concept and practice. TTIP is unlikely to have a negative effect on the EU Internal Market for two key reasons. First, most EU industrial tariffs with the US are already low. This means that – although TTIP will lead to some trade diverting away from the EU Internal Market to the transatlantic market (i.e. the classic trade diversion argument) – this effect will be minimal. The risk is somewhat higher in agriculture (where tariff peaks for sensitive products currently remain) but nevertheless still manageable. Second, when we consider the effects of enhanced regulatory cooperation and a reduction in barriers to trade in services through TTIP, limited effects should also be expected. The EU Internal Market is still fragmented, in particular in key TTIP areas such as goods, services, market regulation, and public procurement. If the EU Internal Market is itself fragmented, it means that there is only a modest preference for intra-EU trade in goods and services compared to trade with third countries (i.e. the US). TTIP therefore cannot erode preferences that exist only moderately. In fact, TTIP could actually contribute to liberalising the EU Internal Market as well as the transatlantic market to some degree. Such an outcome might have the significant positive knock-on effect of pushing the EU towards greater integration.

Section 1. The disappointing results of the EU Internal Market

While the EU Internal Market program for goods has led to substantial progress in goods-related trade (built around Cassis de Dijon and related principles), for two key areas at the core of TTIP negotiations: services and public procurement; the EU Internal Markets remain very fragmented to this day. In addition, levels of enforcement of the regulatory systems differ across EU Member States.

Government procurement

The World Input-Output Database (WIOD) allows us to calculate the importance of foreign goods and services in domestic government procurement compared to the total demand in government procurement – the higher the share of foreign goods and services, the more open the public procurement market.[32] A comparison of the level of openness among EU Member States (i.e. intra-EU openness) with the level of openness towards third countries (i.e. extra-EU openness) shows that the intra-EU and extra-EU degrees of openness to foreign goods and service providers are roughly the same until the late 2000s. Subsequently, they find that for those countries extra-EU openness has increased further, including when compared to intra-EU openness. This implies that if TTIP were to open further the EU and US public procurement markets, the negative impact for the intra-EU procurement market would be modest.

Services

Regarding services, we can measure the degree to which competition and market access are distorted by regulatory barriers – for example through legal and administrative barriers to entrepreneurship, state control of business enterprises, and protected professions. The OECD Product-Market Regulation Indicators strongly suggest that despite massive integration efforts (such as the more than 600+ EU Internal Market laws or "Directives") huge differences between EU Member State regulatory barriers remain.[31] This implies that the degree to which trade with third countries (i.e. the US) is competing with the EU Internal Market is actually much smaller than often thought.

Enforcement

Enforcement is essential in regulatory matters. In particular, "harmonising" regulations will have little impact (if any) if enforcement procedures are not harmonised at the same time. So, do we observe the same "regulatory enforcement quality" across EU Member States? Table 1 is a preliminary attempt to determine this. The World Bank's ranking of countries for "ease of doing business" is used as an estimate. The EU Member States are grouped together by the year in which they acceded into the EU. The Table also compares some countries with which the EU negotiates trade agreements. In 2012, the US was ranked fourth.

Table 1. Ranks for "Ease of doing business"
(selected countries, 2012)

EU Member States by group		EU partners	
EU Member State	Rank	Partner	Rank
EU-1973	7	Singapore	1
EU-1995	19	US	4
EU-2004[B]	24	Korea	8
EU-1958	41	Canada	13
EU-2004[A]	50	Malaysia	18
EU-1980s	58	Japan	20
EU-2007	66	Chinese Taipei	25
		China	91
		Argentina	113
		Russia	120
		Brazil	126
		India	132

Table 1 shows that Member States that have recently joined the EU (Baltic countries, EU 2004b) are easier to do business with than the founding Member States (EU-1958). In short, the EU Member State ranking shows no correlation with how long an EU Member State has been a member of the EU. This implies that even a "deep" regional trade agreement such as the EU's Internal Market has little impact on the regulatory quality of its members. In other words, regulatory quality is above all a domestic issue. A vitally important conclusion drawn from this is therefore that countries or sub-federal states – whether EU Member States or US States – with better regulatory quality should gain much more from TTIP than countries or sub-federal states with lower regulatory quality.

Notes: EU-1973: UK, Denmark, Ireland. EU-1995: Austria, Finland, Sweden. EU 2004b: Estonia, Latvia, Lithuania. EU 1958: Belgium, France, Germany, Italy, Luxembourg, The Netherlands. EU 2004a: Cyprus, Czech Republic, Hungary, Poland, Slovakia, Slovenia. EU-1980s: Greece, Portugal, Spain. EU 2007: Bulgaria, Romania. Source: Doing Business, World Bank.

Section 2. The impact on the EU Internal Market to be expected

The above conclusion is critically important in assessing two key questions related to TTIP's impact on the Internal Market.

Most of the existing studies on TTIP's impact look at the EU as a single entity, without making any distinction among Member States. The GED-Bertelsmann study which finds very strong potential effects of TTIP as explained in Insert 1, and this WTI study are the two main exceptions.[33] The GED-Bertelsmann study suggests that each Member State will substantially increase trade with the US, and decrease trade with other EU Members. In short, TTIP is seen as eroding intra-European trade and replacing it with transatlantic trade. The concept of erosion of preferences is a well-established result of international trade theory, and as such to some degree this effect should be expected to take place.

However, the magnitude of this effect is overestimated by the GED-Bertelsmann study for three reasons.[34] First, most EU industrial tariffs on imports are already low. This means that the degree to which these tariffs give preference to intra-EU trade is very limited. The more substantial preference erosion to be expected in agricultural products (especially for those with high tariff peaks), could raise problems that should be addressed by appropriate measures, such as longer transition periods or better income-support in the EU.

Second, if we treat the US in a similar disaggregated way, we would probably get the same possibility of some limited preference erosion: some US States should be expected to increase their trade with some Member States and reduce their trade with other US States. Third, NTMs raise a separate issue. In services the risk of pressure on the EU Internal Market is limited because the intra-EU preferences are already low – a consequence of the rather fragmented EU Internal Market. In that case, an FTA would not only provide the opportunity to reduce services barriers with the trade partner, but also between the EU Member States.

Negotiation techniques – equivalence needed

Our analysis indicates that TTIP is not likely to have a negative impact on the EU Internal Market. However, this is not the whole story. The impact of TTIP on the Internal Market will also depend critically on the negotiating techniques used. If these techniques are based only on harmonisation (or its weaker form, mutual recognition), the TTIP chapters on regulations (norms in goods, services markets) are bound to deliver only benefits "at the margin". TTIP will only be truly significant if a new approach – "equivalence" – is used.

Deeper integration

The motor vehicles sector serves as a good example. The EU's five-decade-old harmonisation approach in the motor vehicles sector recently ran into a remarkable obstacle: automotive company Daimler refused to enforce a new, less polluting harmonised norm for its car coolant because it found that this new coolant was more flammable. This example illustrates the increasing difficulty in defining a norm that is better than any alternative from all the conceivable criteria (pollution vs. safety in the Daimler case). The "harmonisation-approach" runs into difficulties when conflicting goals need to be met.[35]

In sharp contrast, under a new approach called "mutual equivalence", two countries decide, after a joint evaluation by their relevant regulatory bodies that these norms or regulations are "different but equivalent". In such cases, producers are allowed to produce the good or service under the regulations of their own country and sell it to the consumers of the other country without any other formality. Mutual equivalence is emerging as the best way to truly realise a "deeper" integration of the two economies since it does not generate the costs that harmonisation and harmonised enforcement inevitably impose.

Regulatory competition and innovation

Mutual equivalence requires joint evaluation of what is declared equivalent. This is a critical element, in particular because it allows for trust-building between the two parties. A good illustration of this was the recent joint evaluation exercise on seat belts in the automotive industry.[36] In addition – with respect to the rest of the world – mutual equivalence substitutes a "norm attracting" approach to the "norm-setting" approach advocated by some. This is because mutual equivalence induces the regulator of a country to be innovative by "producing" the best norms possible while continuing to be trusted by its partner's regulators (in order to still pass the test of the joint evaluation). The more innovative a regulator is, the more attractive the regulations it designs are not only for its own domestic firms, but also for those of its trade agreement partner and for the rest of the world. In other words, a mutual equivalence approach has built-in motives for regulators to include a "multilateral" dimension from the start when they plan to reform domestic regulations.

That said, would an "equivalence approach" erode the EU Internal Market in relation to the transatlantic one? This again is highly doubtful, if only because TTIP is very unlikely to cover as many norms and services sectors as in the EU Internal Market.

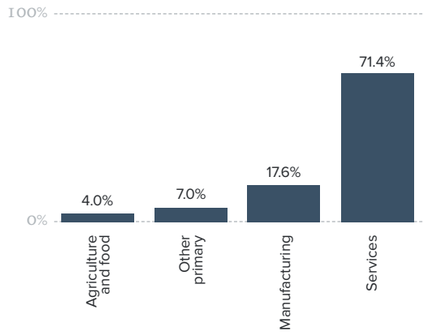
THE CURRENT SITUATION AND EXPECTED TTIP EFFECTS FOR

CYPRUS
CZECH REPUBLIC
DENMARK
ESTONIA

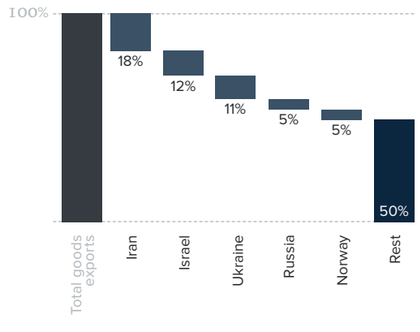
Cyprus and the US – The current situation

Cyprus is predominantly a services economy, with significant value added in the manufacturing sector. Just under 1.000 jobs come from US controlled firms active in Cyprus. Cyprus is only integrated with the US to a limited extent. The US is not in the top-5 of the main goods export destinations, but is the 2nd most important services export destination (11 percent of services exports). The main export sectors for Cyprus to the US are business and ICT services, insurance services, and financial services.

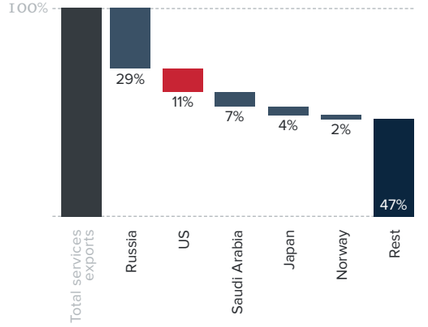
Structure of the Cypriot economy (%)



Total (extra-EU) Cypriot goods exports (%)



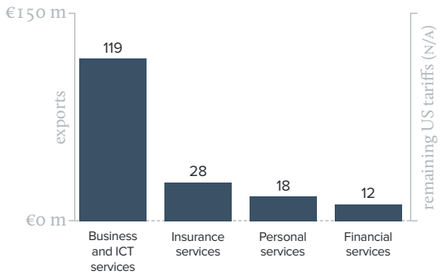
Total (extra-EU) Cypriot services exports (%)



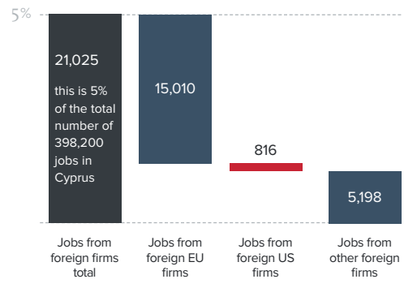
Investments between Cyprus and the US (€ bn)

Year	Investments from the US to Cyprus	Investments from Cyprus to the US
2009	1.2	N/A
2010	1.3	N/A
2011	1.4	2.0
2012	1.5	1.9

Top Cypriot export sectors to US (€ m) and remaining US tariffs (N/A)



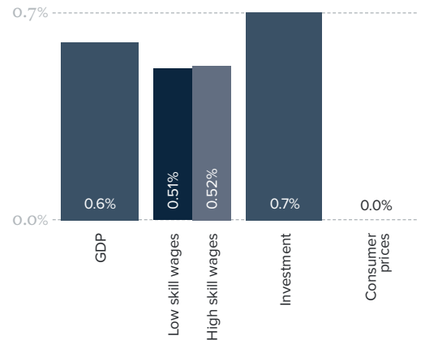
Jobs in Cyprus from foreign controlled firms



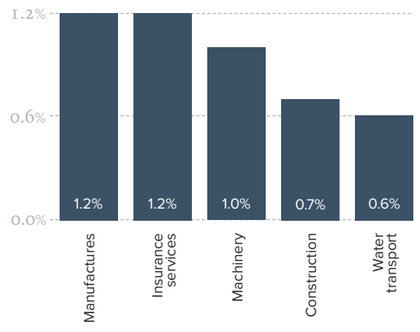
Cyprus and TTIP – Expected effects

Cyprus does not have a very strong economic relationship with the US. Nonetheless, TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and more investments. GDP is expected to increase permanently by 0.6 percent, exports to the US are expected to increase by 5 percent and consumer prices will remain the same.

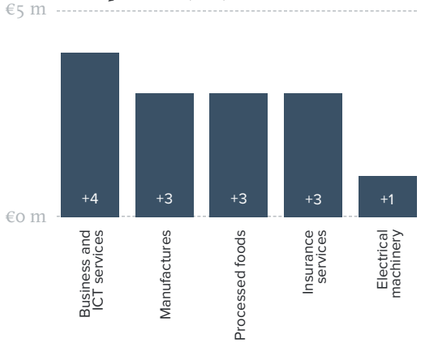
Macro-economic changes in Cyprus due to TTIP (%)



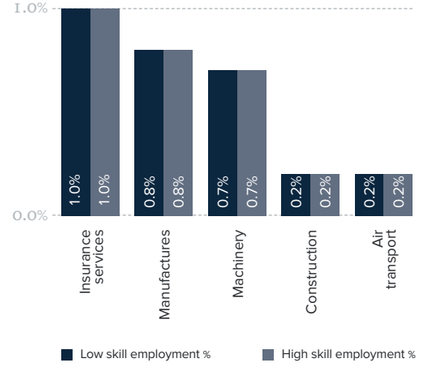
Changes in Cypriot production for top sectors (%)



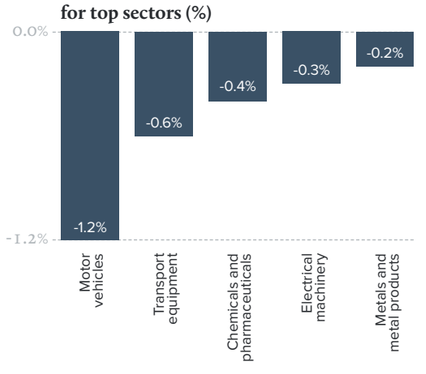
Changes in Cypriot exports to the US for top sectors (€ m)



Cypriot employment effects for top sectors (%)



Changes in Cypriot consumer prices for top sectors (%)



For Cyprus, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

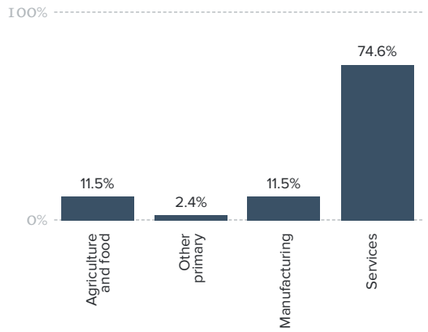
- The manufactures, insurance services, machinery and construction sectors are expected to grow most, but electrical machinery may decline;
- TTIP could facilitate a significant increase in production of manufactures and insurance services. These two sectors are both poised for an export increase of €3 m;
- For Cypriots, prices for motor vehicles (-1.2 percent) and transport equipment (-0.6 percent) could decrease because of TTIP.

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

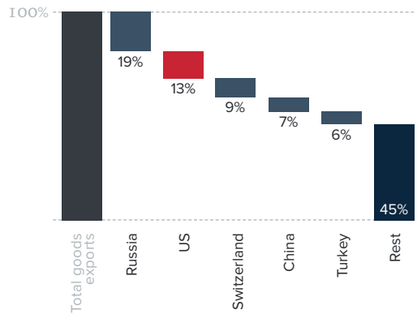
Czech Republic and the US – The current situation

Czech Republic is predominantly a services economy. Almost 150.000 Czech jobs come from US controlled firms active in the Czech Republic. The US is the 2nd most important (extra-EU) goods export destination (13 percent of goods exports) and most important (extra-EU) services export destination (17 percent of services exports) for the Czech Republic. US firms have consistently invested in the Czech Republic. The main export sectors for the Czech Republic to the US are machinery and chemicals and pharmaceuticals.

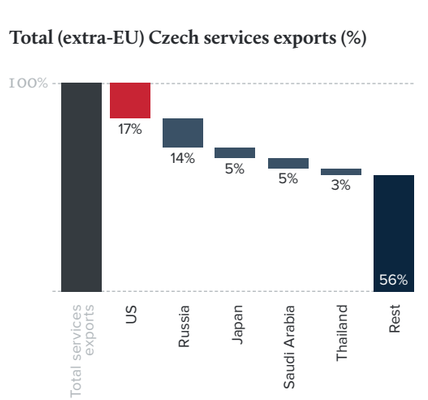
Structure of the Czech economy (%)



Total (extra-EU) Czech goods exports (%)



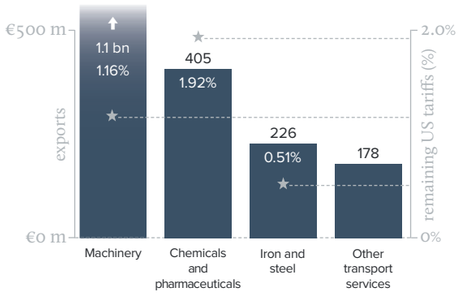
Total (extra-EU) Czech services exports (%)



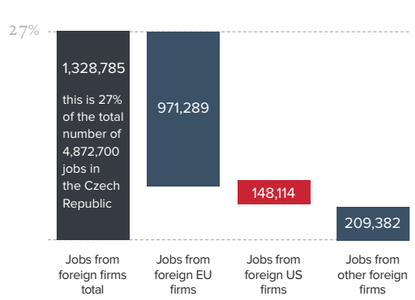
Investments between Czech Republic and the US (€ m)

Year	Investments from the US to the Czech Republic	Investments from the Czech Republic to the US
2009	4018	23
2010	4135	51
2011	4368	68
2012	4818	-180

Top Czech export sectors to US (€ m) and remaining US tariffs (%)



Jobs in Czech Republic from foreign controlled firms

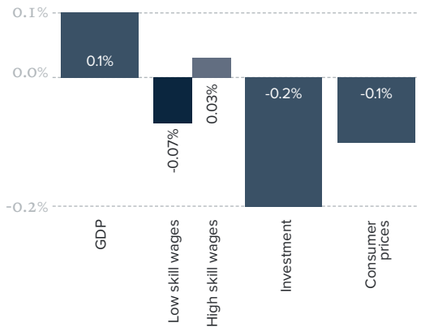


Czech Republic and TTIP – Expected effects

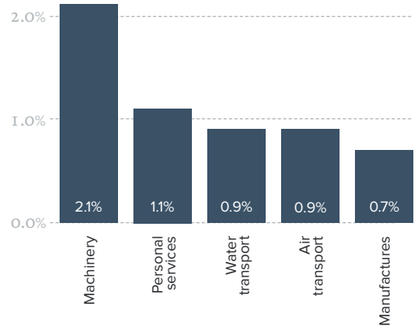
The Czech Republic has a strong economic relationship with the US, and TTIP would contribute to additional income, higher wages for high-skilled workers and lower prices for consumers.

GDP is expected to increase permanently by 0.1 percent, exports to the US are expected to increase by 23 percent and consumer prices will go down marginally by 0.1 percent. Investments are expected to decline.

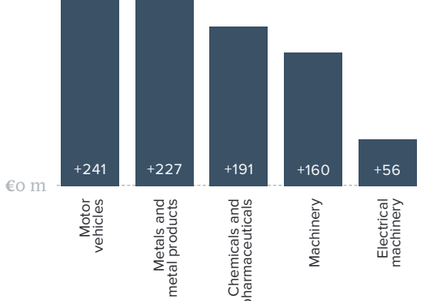
Macro-economic changes in Czech Republic due to TTIP (%)



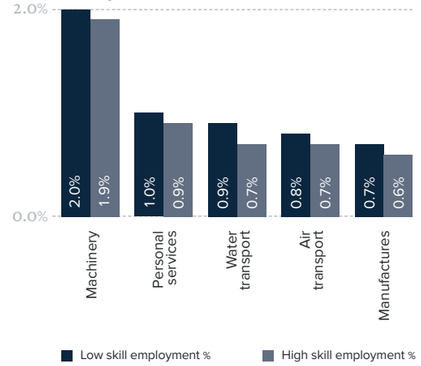
Changes in production for top sectors (%)



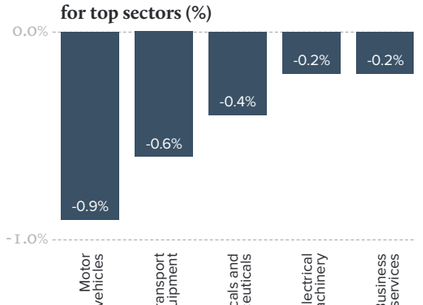
Changes in Czech exports to the US for top sectors (€ m)



Czech employment effects for top sectors (%)



Changes in Czech consumer prices for top sectors (%)



For the Czech Republic, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

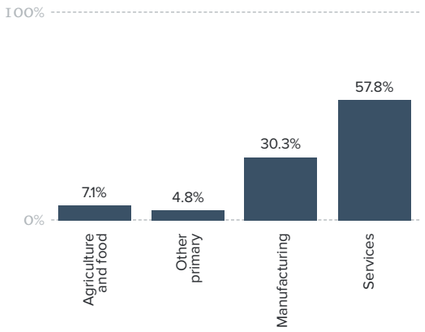
- The machinery, personal services, water and air transport and manufactures sectors are expected to grow most, but electrical machinery may decline;
- TTIP could facilitate a significant increase in production of machinery products by firms in the Czech Republic (+2.1 percent) and exports in motor vehicles (+€241 m);
- Sector specific price reductions are expected to come from motor vehicles (-0.9 percent), transport equipment (-0.6 percent), and chemicals (-0.4 percent).

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

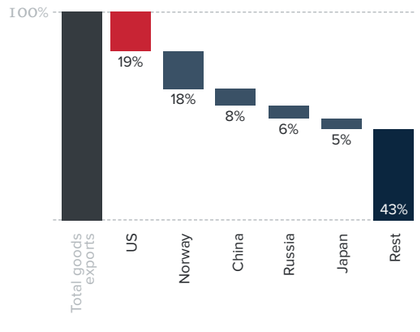
Denmark and the US – The current situation

Denmark is predominantly a services economy but with relatively the largest value added of all EU Member States in manufacturing. Around 75.000 Danish jobs come from US controlled firms active in Denmark. The US is the main (extra-EU) goods export destination (19 percent of goods exports) and services export destination (17 percent of services exports) for Denmark. The main export sectors for Denmark to the US are chemicals and pharmaceuticals, machinery, and air transport services.

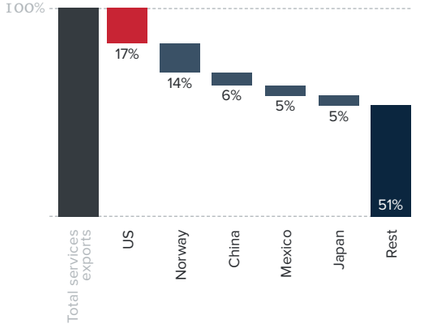
Structure of the Danish economy (%)



Total (extra-EU) Danish goods exports (%)



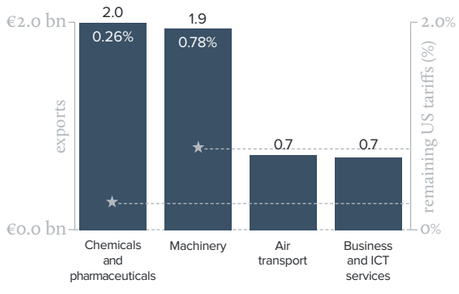
Total (extra-EU) Danish services exports (%)



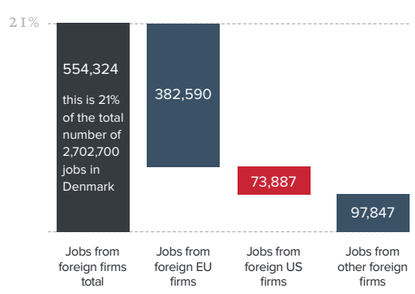
Investments between Denmark and the US (€ bn)

Year	Investments from the US to Denmark	Investments from Denmark to the US
2009	9.8	5.1
2010	9.3	6.1
2011	11.2	5.6
2012	11.0	6.1

Top Danish export sectors to US (€ bn) and remaining US tariffs (%)



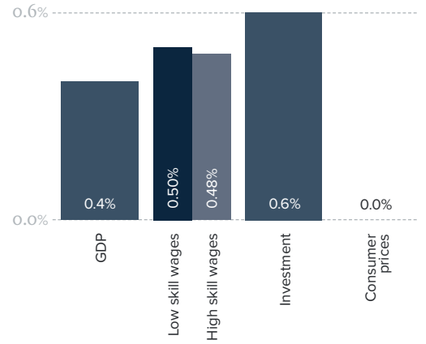
Jobs in Denmark from foreign controlled firms



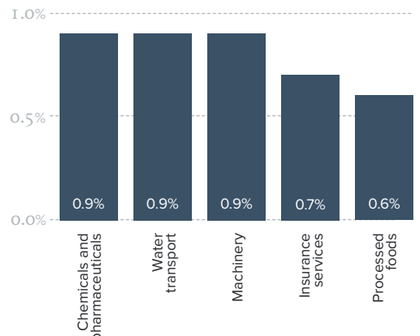
Denmark and TTIP – Expected effects

Denmark has a strong economic relationship with the US, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and more investments, with no effect on prices. GDP is expected to increase permanently by 0.4 percent, exports to the US are expected to increase by 13 percent while consumer prices will remain the same.

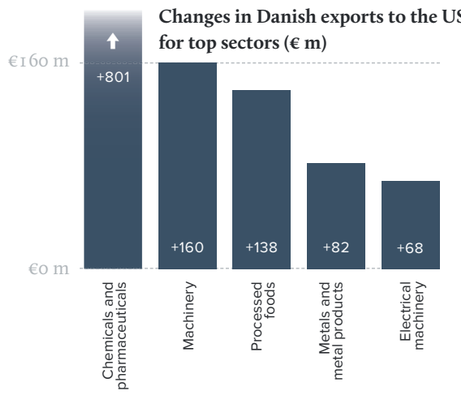
Macro-economic changes in Denmark due to TTIP (%)



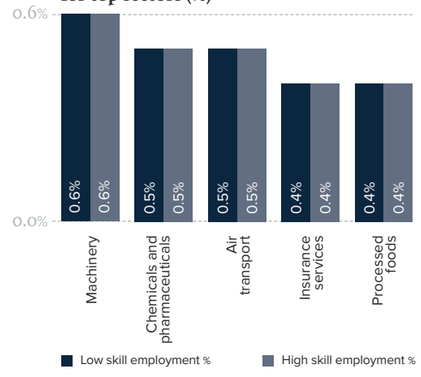
Changes in Danish production for top sectors (%)



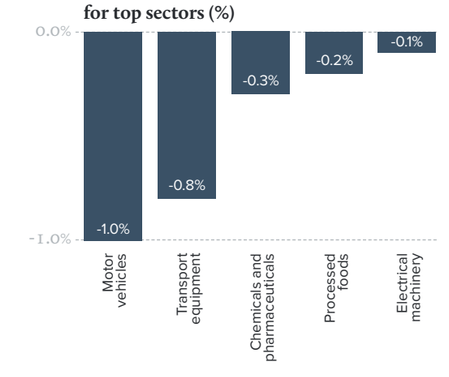
Changes in Danish exports to the US for top sectors (€ m)



Danish employment effects for top sectors (%)



Changes in Danish consumer prices for top sectors (%)



For Denmark, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

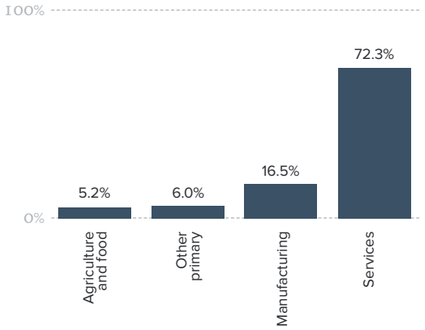
- The chemicals and pharmaceuticals, water transport, and machinery sectors are expected to grow most, but electrical machinery and motor vehicles may decline;
- TTIP could facilitate a significant increase in production of chemicals and pharmaceuticals and water transport by firms in Denmark (both +0.9 percent), and the value of chemicals and pharmaceuticals exports could go up by €801 million;
- For the Danes, prices for cars (-1.0 percent) and transport equipment (-0.8 percent) are expected to decline because of TTIP.

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

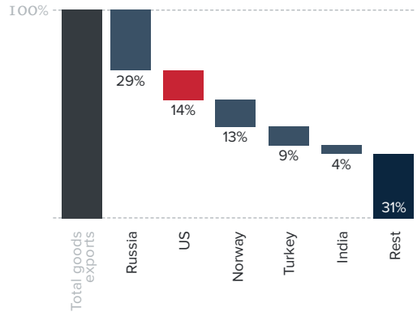
Estonia and the US – The current situation

Estonia is predominantly a services economy, but with significant value added in manufacturing. Around 15.000 Estonian jobs come from US controlled firms active in Estonia. The US is the 2nd most important (extra-EU) goods export destination (14 percent of goods exports) and services export destination (10 percent of services exports) for Estonia. The main export sectors for Estonia to the US are office machinery, chemicals and pharmaceuticals, and machinery.

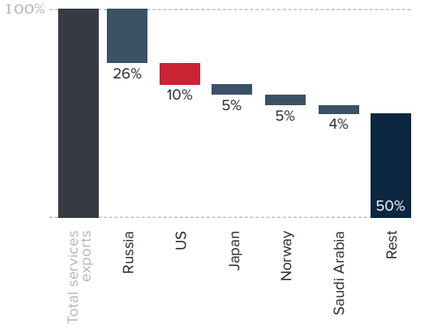
Structure of the Estonian economy (%)



Total (extra-EU) Estonian goods exports (%)



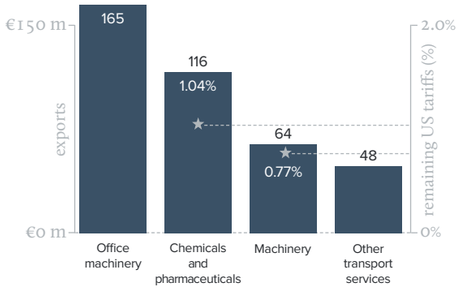
Total (extra-EU) Estonian services exports (%)



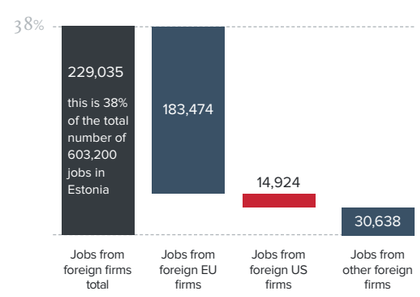
Investments between Estonia and the US (€ m)

Year	Investments from the US to Estonia	Investments from Estonia to the US
2009	N/A	-4
2010	N/A	-5
2011	45	-4
2012	90	-4

Top Estonian export sectors to US (€ m) and remaining US tariffs (%)



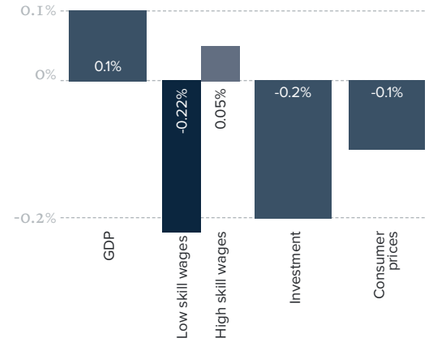
Jobs in Estonia from foreign controlled firms



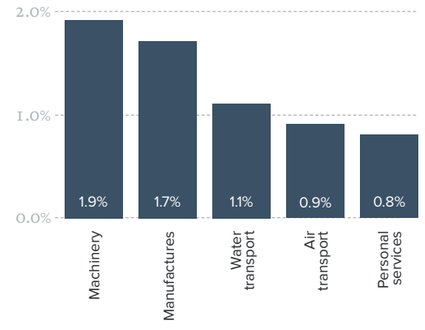
Estonia and TTIP – Expected effects

Estonia does not have a very strong economic relationship with the US. Nonetheless, TTIP would contribute to additional income, higher wages for high-skilled workers, and lower consumer prices. Low-skilled wages and investments would, however, decline. GDP is expected to increase permanently by 0.1 percent, and exports to the US are expected to increase by 13 percent.

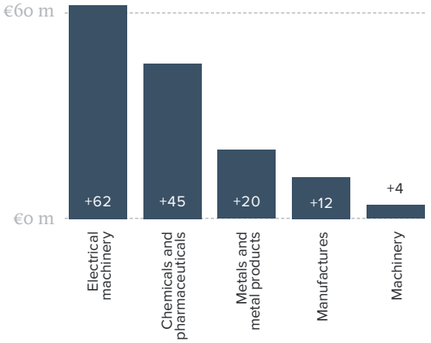
Macro-economic changes in Estonia due to TTIP (%)



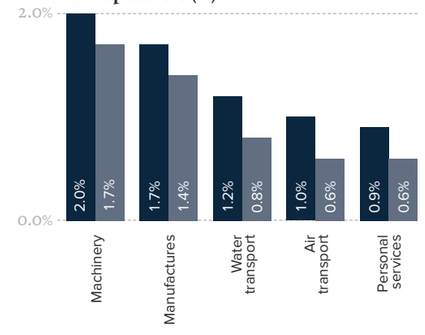
Changes in Estonian production for top sectors (%)



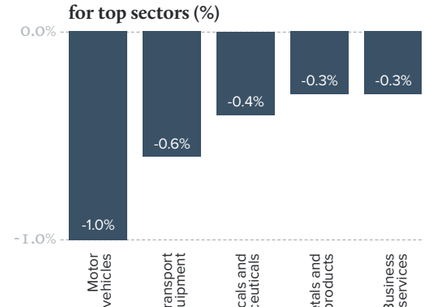
Changes in Estonian exports to the US for top sectors (€ m)



Estonian employment effects for top sectors (%)



Changes in Estonian consumer prices for top sectors (%)



For Estonia, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- The machinery, manufactures, water and air transport and personal services sectors are expected to grow most, but the motor vehicles sector may decline;
- TTIP could facilitate a significant increase in production of machinery (+1.9 percent). Exports are expected to increase, mostly for electrical machinery (+€62 m);
- The expected decrease in consumer prices is driven by many sectors, but the main ones are motor vehicles (-1.0 percent) and transport equipment (-0.6 percent).

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

INSERT 3: TTIP AND REGULATORY COOPERATION

By Jan E. Frydman[3]

"With the onset of negotiations for a TTIP agreement, increased attention has been given to regulatory cooperation, and for good reason: reducing barriers to trade caused by unnecessary differences in how goods and services are regulated on each side of the Atlantic will be one of the most important ways that TTIP can benefit the EU and US economies."

[3] Jan E. Frydman is special advisor to EU Trade Commissioner Cecilia Malmström and a partner of the law firm Ekenberg & Andersson in Stockholm, Sweden. He was until recently the European Commission's Head of Unit for International Regulatory Affairs at its Directorate General for Enterprise and Industry and was, for many years, in charge of transatlantic relations, notably of the development of the EU's regulatory cooperation efforts for goods with the US, Canada and other non-EU countries.

Ekenberg & Andersson
ADVOKATBYRÅ

Summary

Regulatory cooperation – in some organised form – has taken place between the EU and the US for over two decades. The activity has largely been carried out on a voluntary basis through various horizontal and sector-based initiatives. With the onset of negotiations for a TTIP agreement, increased attention has been given to regulatory cooperation, and for good reason: reducing barriers to trade caused by unnecessary differences in how goods and services are regulated on each side of the Atlantic will be one of the most important ways that TTIP can benefit the EU and US economies. Studies have shown that up to 80 percent of the gains from a future TTIP could come from regulatory convergence. It is therefore hugely important to get this aspect of the agreement right, if the two parties are to reap the potentially vast benefits. Both sides should be able to agree on good regulatory practices, and also eliminate unnecessary burdens in several sectors. They should also be able to agree on a process that, if properly applied, ultimately will result in more informed and similar approaches across the Atlantic. The extensive experience gained in the past in this area can help in constructing a balanced and lasting agreement.

Considering that existing tariffs between the EU and the United States are for the most part already low and in any case are easier to address, and while traditional trade issues such as access to public procurement markets and agriculture remain as important as ever, regulatory differences are probably the most significant impediment to trade and investment between the two negotiating parties. While a certain degree of discrepancy is probably unavoidable, many differences in regulatory systems impacting transatlantic trade are unnecessary and can be overcome. A more integrated and streamlined transatlantic regulatory environment can contribute to higher levels of safety, increased consumer choice and significantly reduced costs for producers and consumers on both sides of the Atlantic. This could have a significant positive effect on the competitiveness of the EU and US economies in today's globalised world.

Regulatory cooperation: progress and actionability

The concept of regulatory cooperation is not new. For over two decades, the EU and the US have gradually increased efforts to achieve greater convergence in regulation. Some argue that, for all these efforts, there has been a lack of real progress, and moreover that this lack of progress is evidence that further enhanced cooperation through TTIP cannot be achieved. This assumption is wrong on both counts.

First, there is substantial evidence to illustrate that progress has been made. A solid structure for cooperation has gradually been developed over time, along the lines of the objectives originally formulated by the two parties at the 2002 EU-US Summit: "to pursue, as appropriate, harmonised, equivalent or compatible solutions, and take appropriate steps to minimize or eliminate unnecessary divergence in regulations".[37] These achievements provide a solid basis to support the ambitious goal of regulatory cooperation in TTIP. A set of Guidelines on Regulatory Co-operation and Transparency, annually adopted Road Maps intended to implement the Guidelines, a High Level Forum for Regulatory Co-operation, and a body of political oversight, the Transatlantic Economic Council, are all tangible evidence of this enhanced cooperation.

If a structure for cooperation has been gradually and successfully developed over time, what has been lacking is the actual implementation of the concepts developed. It should nevertheless be stressed that common solutions have still been achieved in specific areas through voluntary cooperation between the EU and the US, for example in the areas of marine safety equipment (by mutually recognising regulations as equivalent based on a common international standard) and organic goods (by mutually recognising organic programs as equivalent). The EU and the US also successfully concluded a Mutual Recognition Agreement on conformity assessment activities. However, with EU and US legal, institutional, cultural and social heritages being different, the systems, procedures and regulations are also often different, not least because they were developed with only domestic concerns in mind. Legally binding provisions under the TTIP agreement will mark a considerable achievement in support of the long aspired-for transatlantic regulatory convergence – and one that could yield significant positive effects for industry and consumers on both sides of the Atlantic.

Second, enhanced transatlantic regulatory cooperation should be viewed as both attainable and desirable. Similar internal cooperation has already been achieved separately, both in the EU and in the US, albeit under different logics and frameworks. In the EU, a Treaty and other legislation, common executive and legislative institutions and a Court to enforce what has been agreed have created what is now the single market among the 28 EU Member States. In the US, with its commerce clause in the Constitution and the dormant commerce clause doctrine and other legislation, similar institutions and efforts have created a "single market" among the 50 States.

There are many similarities but also fundamental differences between the two systems. Understanding both is essential to bridging the gaps between the two markets and moving towards a more transatlantic approach. It is also important to realise from the outset that once the relevant political choices and decisions have been made, implementing them will be challenging given the obvious technical and legal complexities involved, but by no means insurmountable and comparable to domestic efforts by both sides to create their own single markets.

Lessons learned

Based on the lessons derived from prior EU-US regulatory cooperation efforts, three issues should be taken into consideration:

First, the EU and the US have different and separate legal and institutional frameworks, and these are not likely to change as a result of TTIP. A common misconception is that regulations for goods undergo the same adoption process in the EU as in the US. In reality, the processes are rather different. In the EU, regulations usually take the form of legislation (adopted by a legislative procedure in which the European Commission proposes and then the European Parliament and European Council jointly adopt); meanwhile in the US, regulations are often adopted by administrative agencies acting under mandate from the legislative branch, following the procedure established by the Administrative Procedures Act (APA). Moreover, some sectors may be regulated on different levels in the EU and the US, such as at the federal level in the US and by Member States in the EU, or vice versa.

Second, a clear and specific agenda should be created, covering the areas and sectors where there is genuine political support for harmonisation, mutual recognition, or any other form of regulatory alignment. For example, is the objective to:

1. Harmonise all requirements, conformity assessments and enforcement procedures that a product is covered by, so that that product (for example, a car) can be bought and sold as easily between the EU and the US as domestically?

2. Or, to mutually recognise as equivalent the regulations, conformity assessment and enforcement procedures with the same goal as in (i)?

3. Or, to focus only on some of those requirements (say, on door locks and seat belts, but not on the whole car)?

4. Or, to maintain the status quo, but instead try to reduce costs from duplicative administrative burdens, such as data collection, testing requirements, etc.?

Third, it is important to manage expectations on what an ambitious TTIP agreement will ultimately be able to achieve. For example, if objectives are chosen that will require new, or amendments to existing, regulations (likely in examples (i), (ii) and (iii), but less so in (iv)), these objectives will be subject to the legislative mandates and/or administrative procedures required in the US regulatory system, and to the appropriate legislative procedure and possible related standardisation required in the EU system. And these two independent processes would have to arrive at the same result. The same will be true also with respect to any future changes.

Recommendations for a regulatory agenda

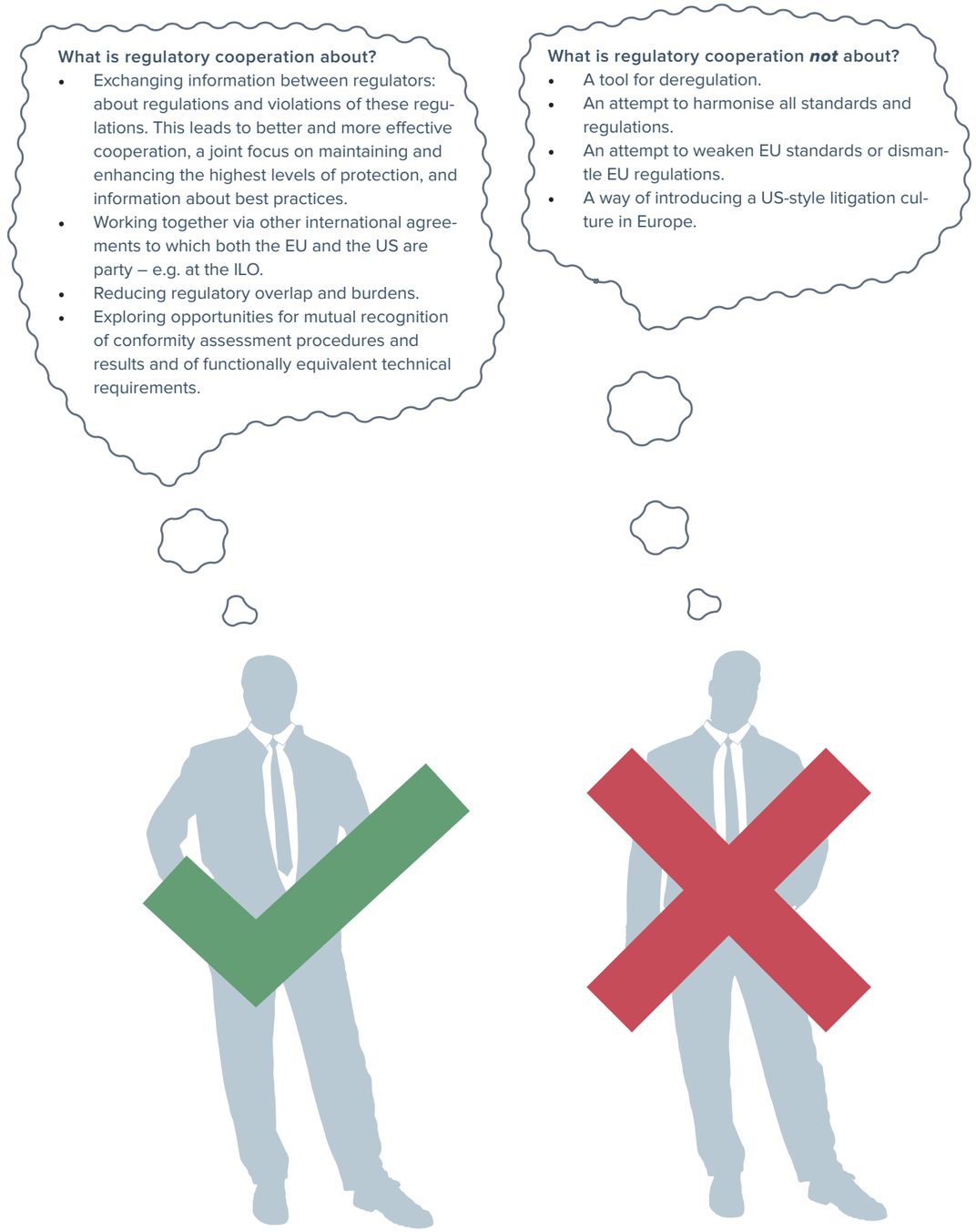
So, what could be the way forward under TTIP? First, the negotiating parties should be able to agree on horizontal issues in support of more coherent approaches, such as what constitutes good regulatory practices. Both sides share a common vision when it comes to rule of law, the need for transparency, impact assessments, public consultation, etc. Secondly, for some identified sectors, it should be possible to agree in TTIP on ways to reduce costs from unnecessary administrative burdens, data collection, duplicative testing requirements, etc.

But what about harmonisation and mutual recognition? While tariffs and other "classic FTA chapters" can be negotiated, it will be more difficult to "negotiate" regulations, not least because of the legislative and administrative requirements and procedures involved in regulating on each side. A common misconception is that TTIP somehow by itself would change regulations, and even lower safety requirements or standards, but this is not possible: only regulators and standard setting organisations can establish those levels. By contrast, improved cooperation between regulators in the EU and the US, who are likely among the best in the world, would rather result in more informed outcomes, which should translate into enhanced regulation and safer products.

On the other hand, TTIP could establish a cooperative structure with a process, tasked to work towards achieving a certain outcome to ultimately be decided by the regulators/legislators. This structure could be inspired by what has been developed in the past (with the important difference being the benefits that a legally binding agreement can bring), including (i) an agreed general text/chapter establishing the basis for cooperation on regulatory issues and how to address transparency, scope, objectives, methods etc. (perhaps inspired by the EU-US Guidelines on Regulatory Cooperation and Transparency); (ii) an annual/periodically updated and agreed Roadmap/Agenda, setting out which areas to cooperate on, the extent of harmonisation/mutual recognition or simplification sought, and what it would take to get there; (iii) a supporting body, perhaps inspired by the High Level Regulatory Cooperation Forum established in 2005, sufficiently resourced to support cooperation, to compare regulatory work programmes and identify new areas of cooperation, set the agenda, steer the process, share best practices, and solve issues as they arise; (iv) genuine political oversight by the relevant decision making bodies on both sides, and (v) transparency and opportunities for stakeholders to give useful and robust input. While recognising that each side ultimately decides on its regulations, if sincerely implemented the negotiating parties will have confirmed a way of regulating that will gradually lead to more informed and, where possible, similar approaches across the Atlantic.

There is no "one size fits all" solution to addressing or bridging the gap between EU and US regulation. Therefore, a variety of "tools" will have to be used to support convergence depending on the nature of the regulatory differences to be addressed in each sector. Nonetheless, the two sides could be inspired by the so-called "new approach" to regulation developed by the EU to harmonise regulations among the Member States. Under this approach, governments "only" decide on what should be the essential safety requirements for a product. Stakeholders (including industry) then establish the standards that satisfy those requirements through standard-setting organisations. This keeps regulation relevant and supports innovation by ensuring that standards are flexible and reactive to technological change. Applied to the transatlantic context, and grossly simplified, should the EU and US agree on what ought to be the essential requirements for a good (including the related conformity assessment and market surveillance procedures), and if the transatlantic stakeholder community as a whole can agree on the standards to satisfy those requirements, then similar "regulation" should be possible. At the very least, this should be attempted in sectors where new regulations are developed, or where old ones are being amended.

Infographic 3: What Regulatory Cooperation is and is not about



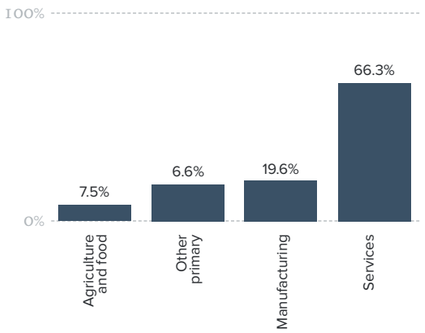
THE CURRENT SITUATION AND EXPECTED TTIP EFFECTS FOR

FINLAND
FRANCE
GERMANY
GREECE

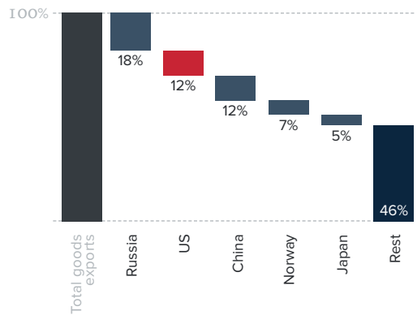
Finland and the US – The current situation

Finland is predominantly a services economy with a significant manufacturing sector. Over 50.000 Finnish jobs come from US controlled firms active in Finland. The US is the 2nd largest (extra-EU) goods export destination (12 percent of goods exports) and 4th most important (extra-EU) services export destination (6 percent of services exports) for Finland. The main export sectors for Finland to the US are machinery, chemicals and pharmaceuticals, and wood and paper products.

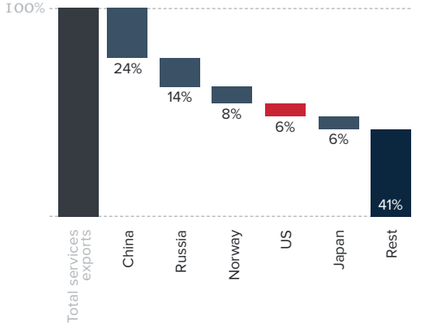
Structure of the Finnish economy (%)



Total (extra-EU) Finnish goods exports (%)



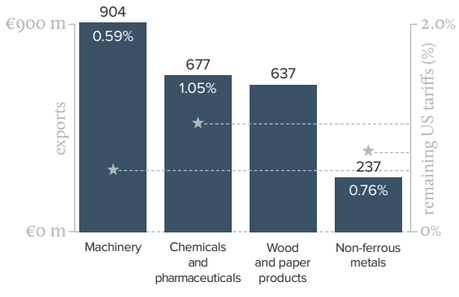
Total (extra-EU) Finnish services exports (%)



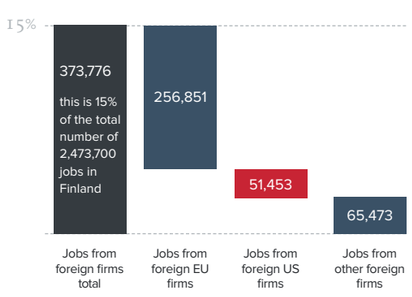
Investments between Finland and the US (€ bn)

Year	Investments from the US to Finland	Investments from Finland to the US
2009	1.2	4.1
2010	1.3	3.9
2011	1.6	3.9
2012	1.6	5.1

Top Finnish export sectors to US (€ m) and remaining US tariffs (%)



Jobs in Finland from foreign controlled firms

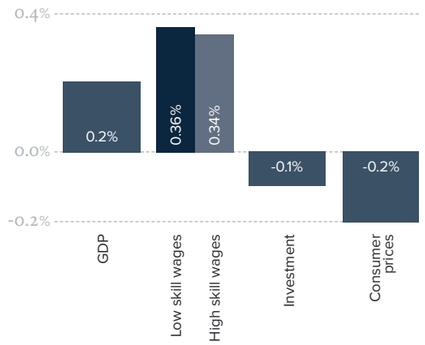


Finland and TTIP – Expected effects

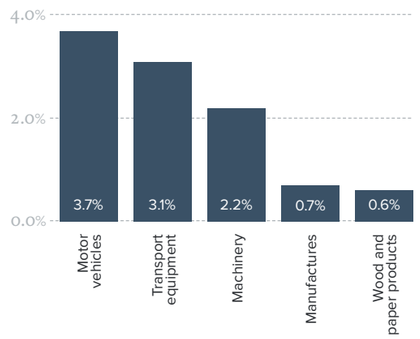
Economic relations with the US are important for Finland, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and lower consumer prices.

GDP is expected to increase permanently by 0.2 percent, exports to the US are expected to increase by 25 percent and consumer prices will down by 0.2 percent. Investments are expected to decrease marginally.

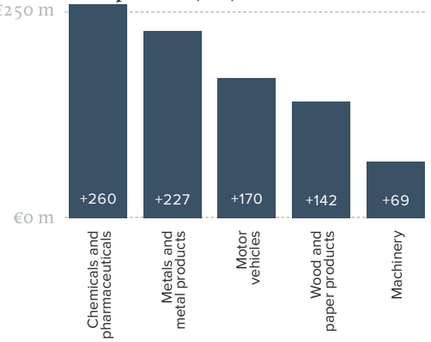
Macro-economic changes in Finland due to TTIP (%)



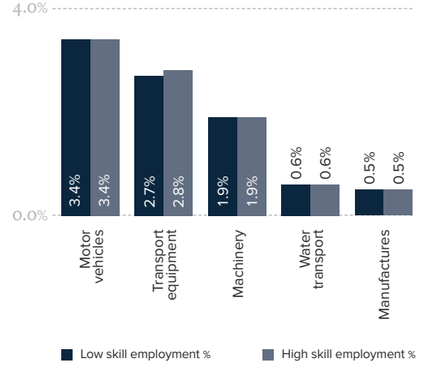
Changes in Finnish production for top sectors (%)



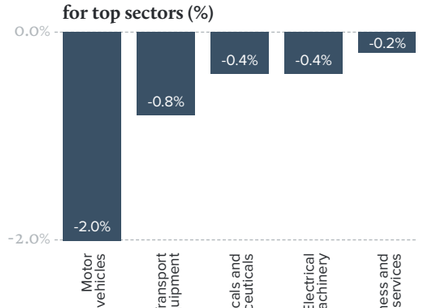
Changes in Finnish exports to the US for top sectors (€ m)



Finnish employment effects for top sectors (%)



Changes in Finnish consumer prices for top sectors (%)



For Finland, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

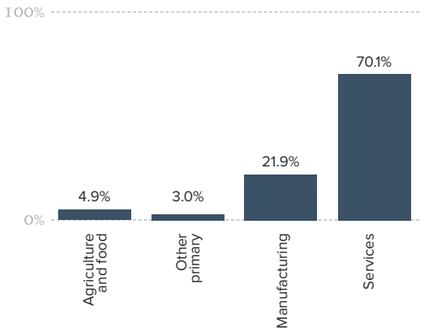
- The motor vehicles sector, transport equipment, and machinery sectors are expected to grow most, but electrical machinery production may decline;
- TTIP could facilitate a significant increase in production of motor vehicles (+3.7 percent) and transport equipment (+3.1 percent). Export values are going up most for chemicals and pharmaceuticals (+€260 m) and metals and metal products (+€227 m);
- For Finns, the price for an average car could go down by 2.0 percent because of TTIP.

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

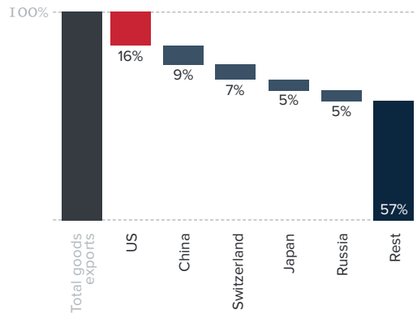
France and the US – The current situation

France is predominantly a services economy, but with a sizeable value added share for manufacturing. Around 650.000 French jobs come from US controlled firms active in France. The US is the main (extra-EU) goods export destination (16 percent of goods exports) and services export destination (20 percent of services exports) for France. The main export sectors for France to the US are chemicals and pharmaceuticals, transport equipment, machinery, and beverages and tobacco.

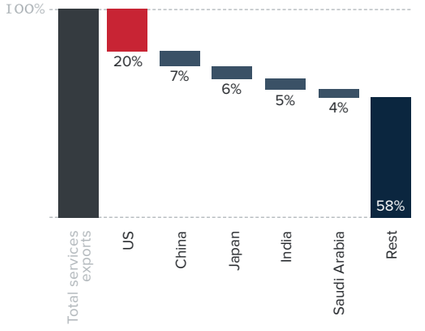
Structure of the French economy (%)



Total (extra-EU) French goods exports (%)



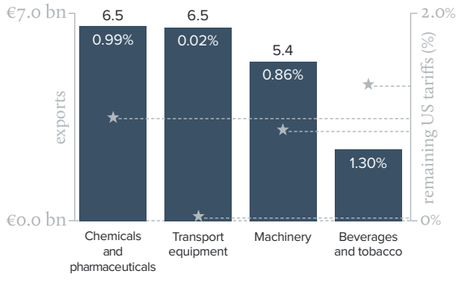
Total (extra-EU) French services exports (%)



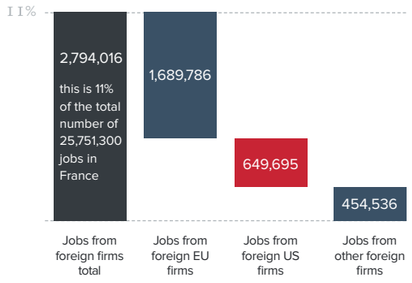
Investments between France and the US (€ bn)

Year	Investments from the US to France	Investments from France to the US
2009	68.0	118.9
2010	61.5	149.0
2011	57.0	147.9
2012	62.2	186.2

Top French export sectors to US (€ bn) and remaining US tariffs (%)



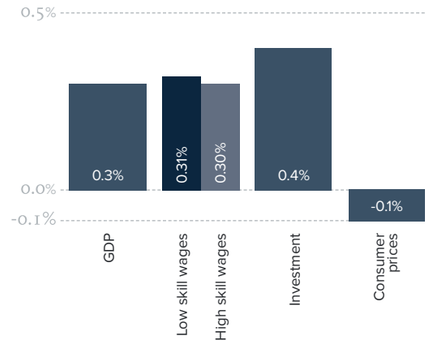
Jobs in France from foreign controlled firms



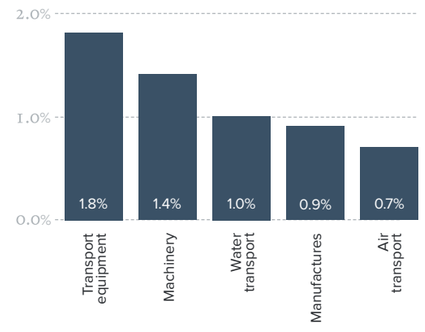
France and TTIP – Expected effects

France has a strong economic relationship with the US, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, more investments, and lower consumer prices. GDP is expected to increase permanently by 0.3 percent, exports to the US are expected to increase by 23 percent and consumer prices will go down marginally by 0.1 percent.

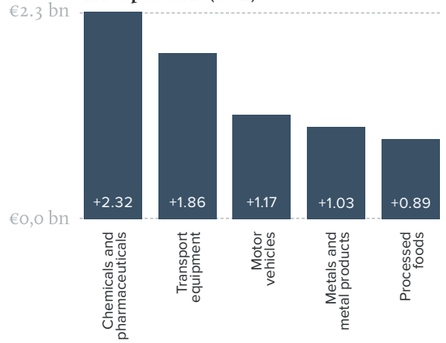
Macro-economic changes in France due to TTIP (%)



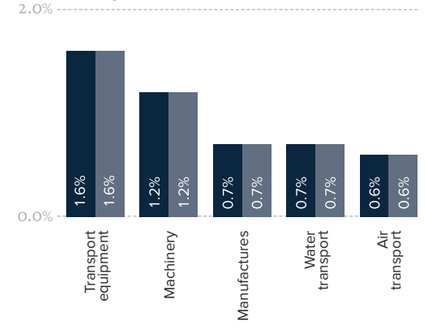
Changes in French production for top sectors (%)



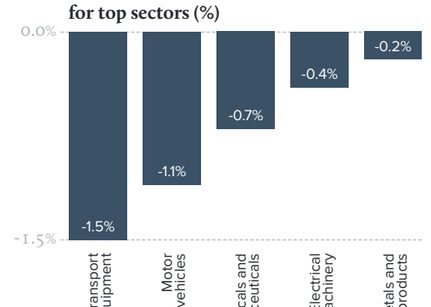
Changes in French exports to the US for top sectors (€ bn)



French employment effects for top sectors (%)



Changes in French consumer prices for top sectors (%)



For France, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

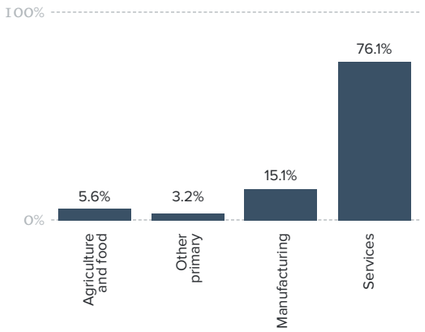
- The transport equipment, machinery, manufactures, and transport sectors are expected to grow most, but electrical machinery and motor vehicles may decline. Agriculture output also goes up;
- TTIP could facilitate a significant increase in production of transport equipment (+1.8 percent). The main export increase for France is expected to come from chemicals and pharmaceuticals (+2.3 bn) and other transport equipment (+1.9 bn);
- In France, the price of transport equipment will decrease by 1.5 percent.

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

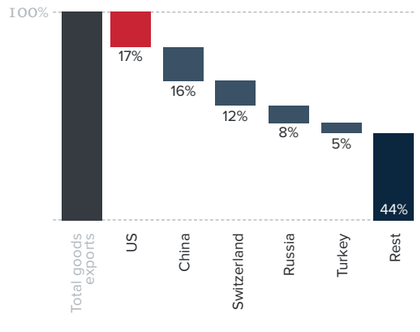
Germany and the US – The current situation

Germany is predominantly a services economy, with significant value added in the manufacturing sector. Around 835.000 German jobs come from US controlled firms active in Germany. The US is the main (extra-EU) goods export destination (17 percent of goods exports) and services export destination (24 percent of services exports) for Germany. The main export sectors for Germany to the US are machinery, motor vehicles, chemicals and pharmaceuticals, and business and ICT services.

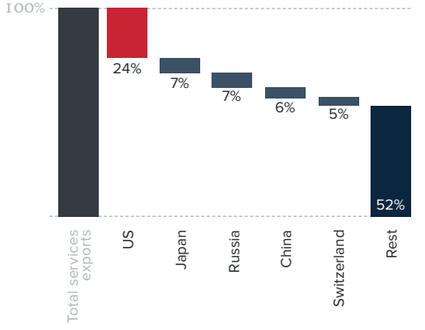
Structure of the German economy (%)



Total (extra-EU) German goods exports (%)



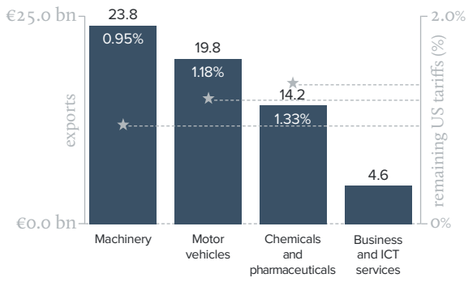
Total (extra-EU) German services exports (%)



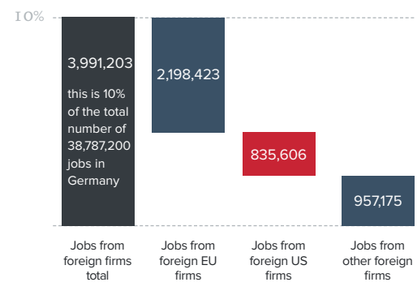
Investments between Germany and the US (€ bn)

Year	Investments from the US to Germany	Investments from Germany to the US
2009	82.4	137.6
2010	81.1	159.4
2011	89.5	159.8
2012	95.6	162.7

Top German export sectors to US (€ bn) and remaining US tariffs (%)



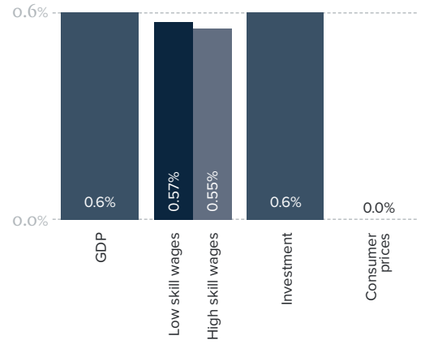
Jobs in Germany from foreign controlled firms



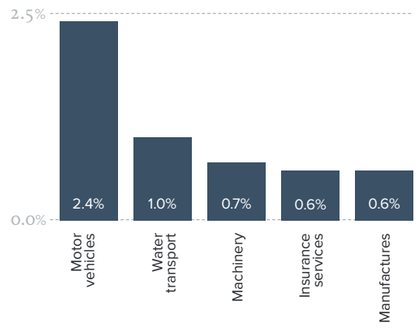
Germany and TTIP – Expected effects

Germany has a strong economic relationship with the US, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and more investments. GDP is expected to increase permanently by 0.6 percent, exports to the US are expected to increase by 38 percent and consumer prices will remain the same.

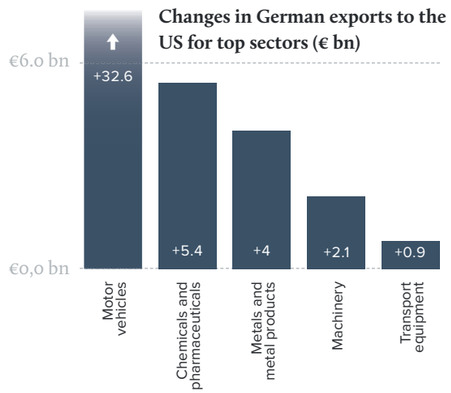
Macro-economic changes in Germany due to TTIP (%)



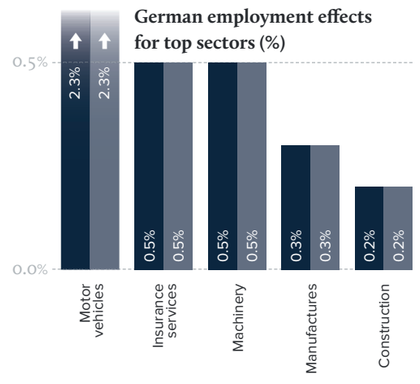
Changes in German production for top sectors (%)



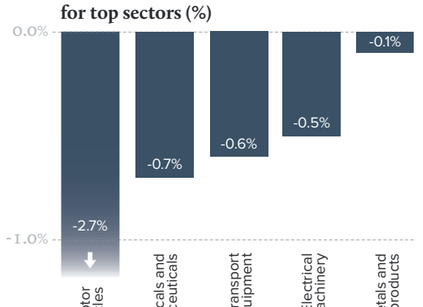
Changes in German exports to the US for top sectors (€ bn)



German employment effects for top sectors (%)



Changes in German consumer prices for top sectors (%)



For Germany, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

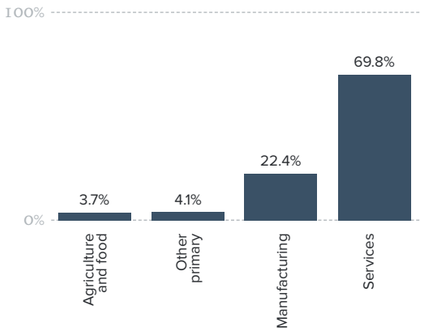
- The motor vehicles sector, water transport, machinery, insurance services and manufactures sectors are expected to grow most, but electrical machinery and metal production may decline;
- TTIP could facilitate a significant increase in production of motor vehicles by firms in Germany (+2.4 percent) and exports in this sector are expected to increase significantly (+€33 bn);
- For Germans the price for an average car could go down by 2.7 percent because of TTIP.

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

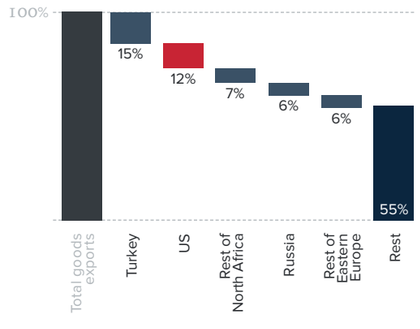
Greece and the US – The current situation

Greece is predominantly a services economy, with also significant value added coming from the manufacturing sector. Just under 18.000 Greek jobs come from US controlled firms active in Greece. The US is the 2nd largest (extra-EU) goods export destination (12 percent of goods exports) and 4th largest (extra-EU) services export destination (9 percent of services exports) for Greece. The main export sectors for Greece to the US are transport services, business and ICT services, distribution services and processed foods.

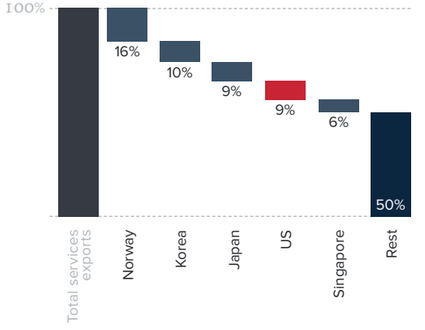
Structure of the Greek economy (%)



Total (extra-EU) Greek goods exports (%)



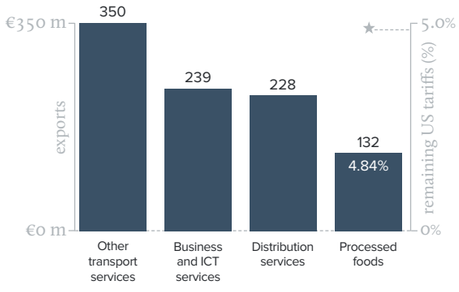
Total (extra-EU) Greek services exports (%)



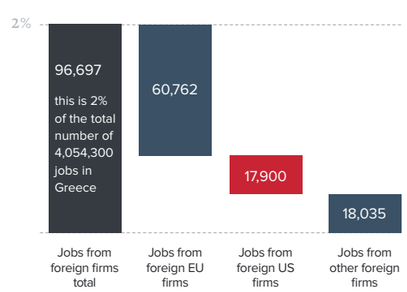
Investments between Greece and the US (€ bn)

Year	Investments from the US to Greece	Investments from Greece to the US
2009	1.4	N/A
2010	1.4	N/A
2011	1.1	N/A
2012	0.8	N/A

Top Greek export sectors to US (€ m) and remaining US tariffs (%)



Jobs in Greece from foreign controlled firms

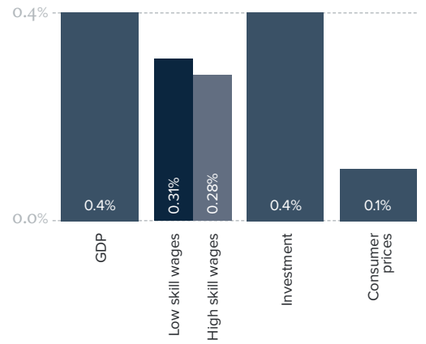


Greece and TTIP – Expected effects

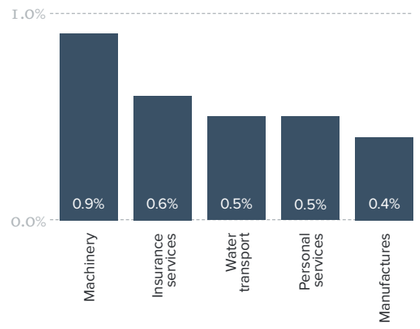
Economic relations with the US are important for Greece, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and more investments.

GDP is expected to increase permanently by 0.4 percent, and exports to the US are expected to increase by 13 percent.

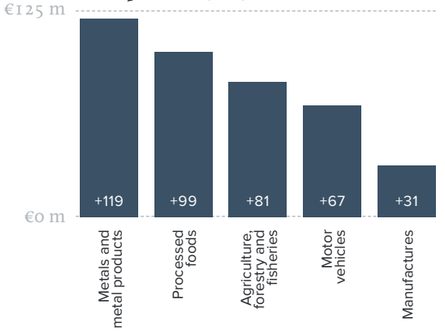
Macro-economic changes in Greece due to TTIP (%)



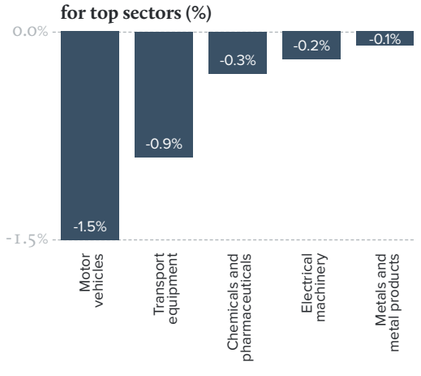
Changes in Greek production for top sectors (%)



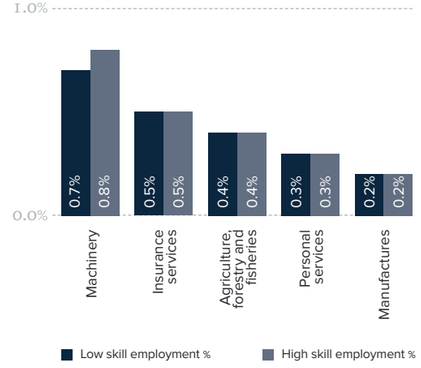
Changes in Greek exports to the US for top sectors (€ m)



Changes in Greek consumer prices for top sectors (%)



Greek employment effects for top sectors (%)



For Greece, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- The machinery, water transport, insurance and personal services sectors are expected to grow most, but electrical machinery and motor vehicles may decline. Agricultural output also goes up;
- TTIP could facilitate an increase in production of machinery by firms in Greece (+0.9 percent). Exports in the metals sector are poised to increase by €119 m. Moreover, exports in the processed foods sector are expected to increase by €99 m;
- For Greeks the price for an average car could go down by 1.5 percent because of TTIP.

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

INSERT 4:
TTIP AND ENVIRONMENTAL PROTECTION

By: Prof. Dr. Gabriel Felbermayr[4], Ms. Marie-Theres von Schickfus[5]

“The agreement will increase environmental pressures due to increased production and transport. This effect can partly be counterbalanced by efficiency improvements and exchange of environmental technology induced by TTIP.”

[4] Prof. Dr. Gabriel Felbermayr is director at Ifo Center for International Economics and Professor for Economics at University of Munich (LMU).

[5] Ms. Marie-Theres von Schikfus is economist at Ifo Center for Energy, Climate and Exhaustible Resources.

ifo Institute

Summary

TTIP will affect environmental outcomes through different channels that may have offsetting effects. First, the agreement will amplify environmental pressures due to increased production and transport. This effect can partly be counterbalanced by efficiency improvements and exchange of environmental technology induced by TTIP. The effects of the agreement on third countries’ production, trade, and regulation can also have positive and negative environmental implications. The effects of regulatory cooperation on environmental outcomes are most likely to be relevant in the long run and depend in part on whether the agreement has an impact on environmental standards in the US, Europe, and the world.

Current issues regarding trade and the environment

Trade agreements generally influence the environment due to the increase in economic activity that the reduction of trade costs brings about. These effects can go in different directions, as trade can at the same time lead to more transport (with more emissions), more production (with more emissions – "scale effect"), a change in the relative importance and structure of certain industries (leading to more or less emissions depending on the industries involved – "composition effect"), and to improvements in efficiency and technology (reducing emissions – "technique effect").[38]

The changing nature of trade agreements requires adding further dimensions to the trade and environment nexus, including through enhanced regulatory cooperation and provisions on investment protection. So-called "deep" preferential trade agreements aim at lowering non-tariff barriers to trade through regulatory cooperation – also on the environmental front; this has led to the worry of "regulating downwards", a concern not supported by existing empirical evidence.[39] Additionally, agreements such as TTIP address investment as well as trade, and include an investor-state dispute settlement (ISDS) mechanism. Concerns have been raised that the possibility for firms to sue states over new regulation could lead to "regulatory chill"; this can potentially affect all areas of (environmental) regulation.

Additionally, lowering the barriers to trade and FDI also affects the risk of carbon leakage, i.e. the shift of CO_2-intensive production and investment from a more emission-constrained area (such as the EU) to a less constrained one (such as the US).[40] Moreover, global environmental outcomes are also affected by the third-country effects of bilateral trade agreements. Changing trade relations particularly between two large players as the EU and the US changes global trade and production patterns, and thus also creates environmental effects in other countries, which may influence or run counter to the effects observed in the participating countries.

What provisions for or relevant to the environment will be negotiated under TTIP?

Tariff reductions as well as NTM reductions (in the form of regulatory cooperation) will lead to environmental impacts through worldwide changes in production and transport. Regulatory cooperation, however, could also affect environmental standards. Apart from emission standards in the automotive industry (where it is unclear whether they will be addressed in the agreement), the chapters on SPS and TBT (which can be relevant for consumer protection issues)[42] are of particular importance as well as the chapter on services, which may address environmental services.[43] It is likely that the investment chapter will include an ISDS/ICS mechanism. However, this will not affect the parties' right to regulate: the EU's negotiating mandate stresses that the investment protection provisions should be "without prejudice to the right of the EU and the Member States to adopt and enforce [...] measures necessary to pursue legitimate public policy objectives"[44], including environmental ones. Both the EU and the US aim at narrow definitions of direct and indirect expropriation.[45] Together with the EU proposal to create an appellate mechanism and to introduce the "loser pays" principle, such wording will aim to make a misuse of ISDS/ICS more difficult and thus reduce the risk of "regulatory chill".[46]

Specific clauses referring to environmental issues and commitments can be seen as an effort to limit negative effects, and/or to support positive effects. For example, it is likely that in a sustainable development chapter – as exemplified in the latest EU negotiating proposal made public on 6.11.2015 – or elsewhere reference will be made to multilateral environmental agreements (MEAs), reiterating the parties' commitments to their goals. It is unclear to what extent agreements will be mentioned which the US has not ratified or which are sensitive to US domestic political concerns, such as the Convention on Biological Diversity, or the United Nations Framework Convention on Climate Change. It is also likely that the TTIP text will mention the aim to increase trade in environmental goods. The EU wants to eliminate local content requirements for energy industry equipment, and facilitate trade in these products through better regulatory coherence. In the context of raw materials and energy, the EU has stressed that it aims at the removal of existing export restrictions on US gas and crude oil.

The agreement will have to be ratified by the European Parliament and probably the national parliaments in the EU and by Congress in the US. Therefore, it is in the obvious interest of negotiators to include provisions which increase the likelihood of ratification. However, the intention to make TTIP a "living agreement" with ongoing consultations and cooperation on regulatory issues of course means that the environmental impacts of TTIP could go beyond the terms of the negotiated agreement at the point of ratification. In order to prevent a "regulatory race to the bottom", the EU has proposed on 6.11.2015 to include an article on "upholding levels of protection" after the conclusion of TTIP.[47]

What are the potential effects of TTIP for environmental protection?

The effects of TTIP on environmental outcomes depends on the assumptions and the type of model used. For instance, an aspect mentioned in a study by Aichele (et al.) is that TTIP particularly increases trade in intermediate goods;[48] in that case, for each unit increase in value added it brings, the required additional transport is significantly more. On the other hand, if productivity differences within industries are accounted for, then an opening of trade leads to a drop-out of the least efficient firms; this improves average technology and thus can be assumed to decrease environmental impacts. Also, through simplified customs and shipping procedures, transport can become more efficient and thus require fewer resources.

So far, the effects of TTIP on the environment have hardly been quantified comprehensively. The CEPR study[49] and the corresponding Impact Assessment Report by the European Commission[50] present effects of TTIP on emissions of CO_2 and material use. These results combine the scale and composition effects as well as impacts from increased transport. CO_2 emissions are expected to increase both in the EU and the US as a result of the agreement. Nonetheless, the estimates can be seen as upper limit estimates because TTIP could possibly bring about stronger facilitation of environmental goods, enhance trade facilitation, lower transportation times, etc. In the case of CO_2 emissions, it is especially important to look at global effects because the geographical source of the emissions is irrelevant for their climate impact. The CEPR study calculates a worldwide emission increase of 4 million tonnes or 11.3 million tonnes in the less ambitious and more ambitious liberalisation scenarios respectively; this is equivalent to 0.02 percent and 0.07 percent respectively, compared to the baseline scenario annual emissions.[51] These results are based on the assumption of high (20 percent) direct spill-overs, i.e. positive effects of regulatory coherence on foreign exporters to the EU and the US. Apart from the composition effect, the calculations do not take into account potential technique effects of TTIP, which may reduce emissions, such as facilitating exchange of emission reduction technology and equipment. On the other hand, compared to other studies, the analysis by CEPR presents conservative effects of TTIP on output. Studies reporting higher output effects could entail larger changes on CO_2 emissions. One must also recognise that TTIP, in large part, is about boosting productivity (by reducing higher costs linked

to regulatory convergence, for example).To the extent higher output follows from greater efficiency in use of inputs (including energy), such effects can offset otherwise higher expectations on emissions.

Another interesting case in a global view of TTIP is energy, in particular the aim to reduce US export barriers for fossil fuels. This is relevant especially for shale gas because of the related environmental concerns – gas is a relatively low-emitting fossil fuel, but shale gas is more emission-intensive than current EU imports (both because of the extraction method and because of the liquefying process for gas). How US shale gas will be used is hard to predict. If it is indeed imported by the EU, this would mean, in the short run, a cheaper supply of natural gas in its more emission-intensive version. From the perspective of the dynamic development of the EU energy system, this would make gas more competitive and it is feared that this would reduce efforts of moving away from fossil fuels and lead to a further "lock-in" of fossil-based technologies, (although natural gas is expected to play an important role for the system integration of renewables). However, given demand and prices in other parts of the world, particularly Asia, it is unclear whether the EU will be the preferred export destination of US gas.[52] Finally, increased investment opportunities through TTIP may also lead to cost-seeking FDI of European CO_2-intensive industries, and thus to a shift of emissions from the EU to the US, challenging the effectiveness of European climate policy due to "investment leakage"[53]. In summary, it is difficult to say whether the TTIP energy trade provisions will lead to additional use of fossil fuels and thus to additional global emissions. However, TTIP could increase trade in environmental goods such as renewable energy equipment and thereby contribute to a development towards less carbon use in the energy sector.

Coming to the potential effects of regulatory cooperation and ISDS/ICS, a couple of points are relevant. For the reasons outlined above, it is unlikely that any environmental standards will be lowered significantly within the agreement. The European Commission has repeatedly stressed that it will not accept an agreement which affects the EU's environmental and consumer policy and regulation (the precautionary principle, GMO legislation, etc.). It should also be noted that TTIP on the whole may contribute to a strengthening of regulation ("regulating upward" where appropriate on the US and sometimes on the EU sides).[54] However, TTIP is designed as a "living agreement" with continued consultation on regulation.[55] It is hard to foresee how these consultations will affect future environmental law-making. Moreover, the level playing field that TTIP creates by lowering trade barriers may be more important than direct regulatory coherence in the TTIP text: with freer trade, countries will encounter disadvantages due to stricter regulation, and will have an incentive to lower regulation.[56] Both the EU and the US intend to limit this effect by including wording that *"it is inappropriate to attract trade or investment by weakening or reducing the levels of protection […] in domestic environmental […] laws"*.[57] Third country effects are also relevant in the regulatory context. If regulatory spill-overs occur, they might even contribute to more stringent regulation worldwide – but this depends on the regulatory effects within TTIP as well as on the areas where the spill-overs occur. Without regulatory spill-overs, there is no such effect, but also less production and trade with developing and potentially more polluting countries.[58] The impact on worldwide emissions is unclear.[59] Finally, the potential effect of TTIP through ISDS/ICS depends crucially on the exact provisions of the mechanism. If the above-mentioned EU and US proposals to safeguard regulatory space go through and lead to a coherent agreement, the risk of regulatory chill would be very small.

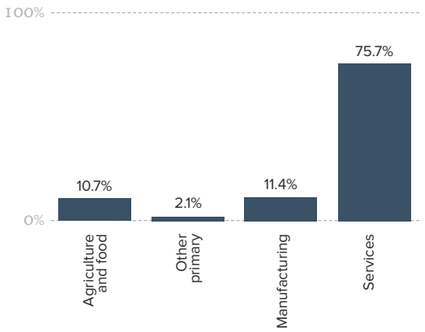
THE CURRENT SITUATION AND EXPECTED TTIP EFFECTS FOR

HUNGARY
IRELAND
ITALY
LATVIA

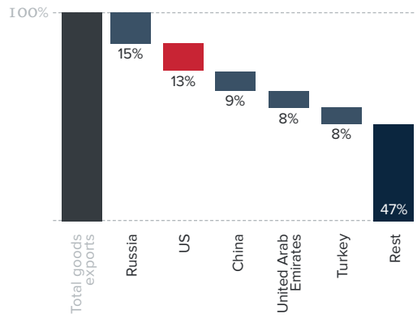
Hungary and the US – The current situation

Hungary is predominantly a services economy. Around 135.000 Hungarian jobs come from US controlled firms active in Hungary. The US is the 2nd main (extra-EU) goods export destination (13 percent of goods exports) and the main (extra-EU) services export destination (16 percent of services exports) for Hungary. The main export sectors for Hungary to the US are machinery, office machinery, chemicals and pharmaceuticals and business and ICT services.

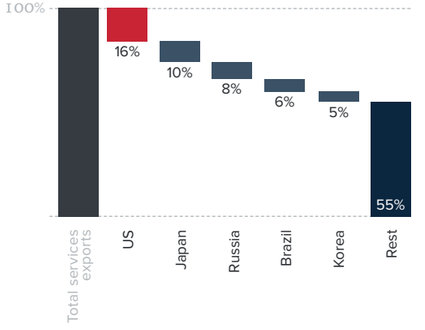
Structure of the Hungarian economy (%)



Total (extra-EU) Hungarian goods exports (%)



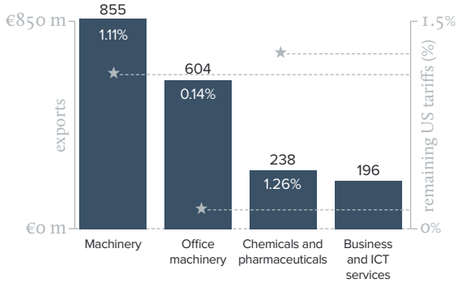
Total (extra-EU) Hungarian services exports (%)



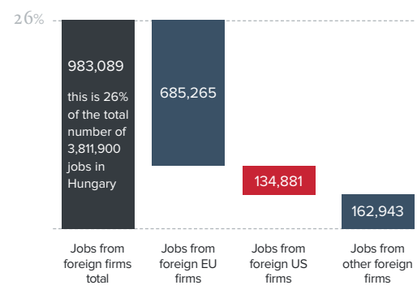
Investments between Hungary and the US (€ bn)

Year	Investments from the US to Hungary	Investments from Hungary to the US
2009	3.1	52.9
2010	3.3	30.8
2011	4.7	13.7
2012	6.1	16.4

Top Hungarian export sectors to US (€ m) and remaining US tariffs (%)



Jobs in Hungary from foreign controlled firms

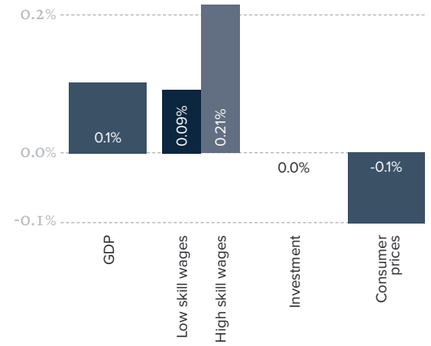


Hungary and TTIP – Expected effects

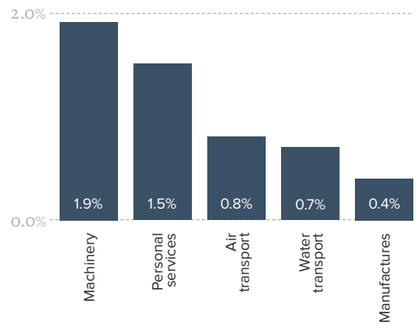
Hungary has a strong economic relationship with the US, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and lower prices for consumers.

GDP is expected to increase permanently by 0.1 percent, exports to the US are expected to increase by 36 percent and consumer prices will go down marginally by 0.1 percent. Investments are not affected.

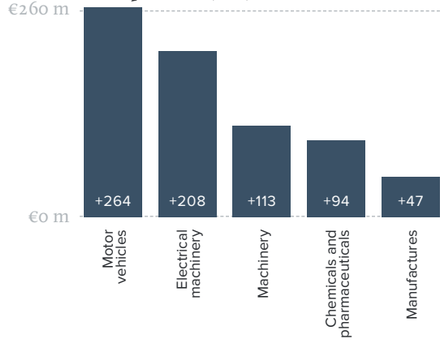
Macro-economic changes in Hungary due to TTIP (%)



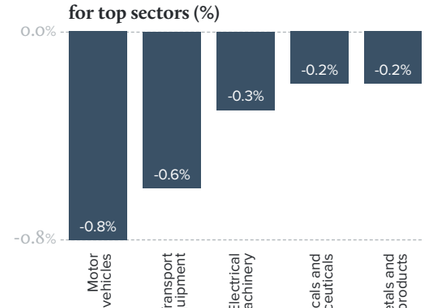
Changes in Hungarian production for top sectors (%)



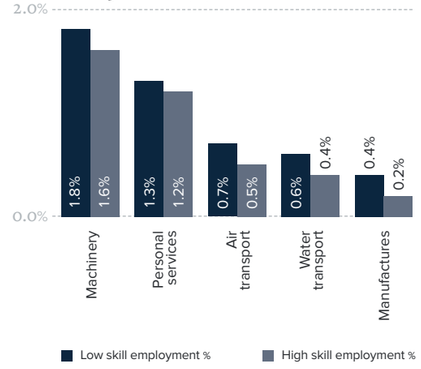
Changes in Hungarian exports to the US for top sectors (€ m)



Changes in Hungarian consumer prices for top sectors (%)



Hungarian employment effects for top sectors (%)



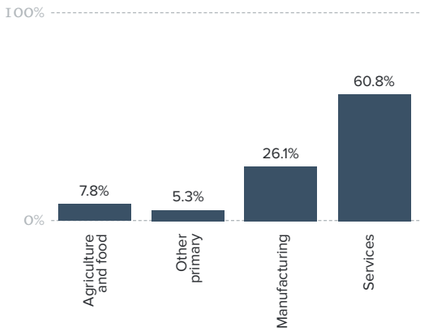
For Hungary, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- The machinery and personal services sectors are expected to grow most, but electrical machinery may decline;
- TTIP could facilitate a significant increase in production of machinery by firms in Hungary (+1.9 percent). Exports are poised to increase most for motor vehicles (+€264 m);
- For Hungarians the price for an average car could go down by 0.8 percent because of TTIP and the price of transport equipment is expected to go down by 0.6 percent.

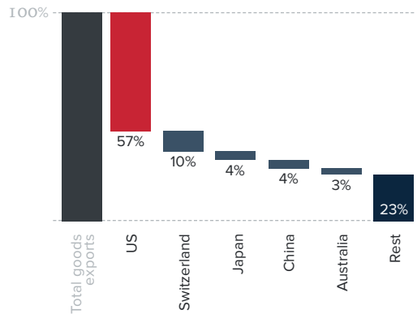
Ireland and the US – The current situation

Ireland is predominantly a services economy, but also has a sizeable manufacturing sector. Just under 170.000 Irish jobs come from US controlled firms active in Ireland. The US is by far the main (extra-EU) goods export destination (57 percent of goods exports) and main (extra-EU) services export destination (44 percent of services exports) for Ireland. The main export sectors for Ireland to the US are chemicals and pharmaceuticals, insurance services, machinery and business and ICT services.

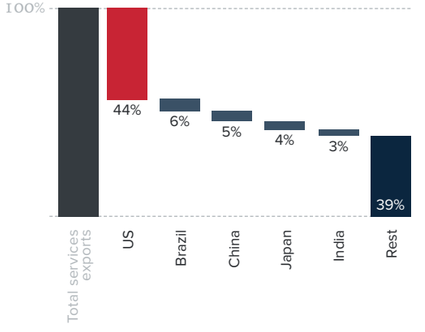
Structure of the Irish economy (%)



Total (extra-EU) Irish goods exports (%)



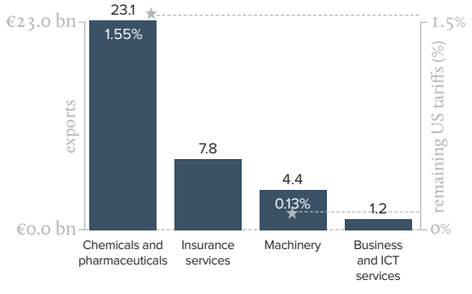
Total (extra-EU) Irish services exports (%)



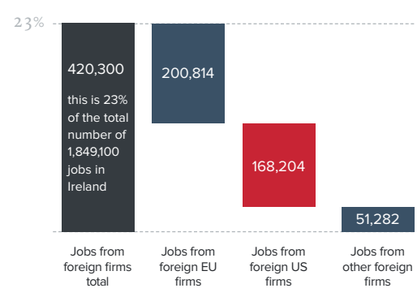
Investments between Ireland and the US (€ bn)

Year	Investments from the US to Ireland	Investments from Ireland to the US
2009	97.1	15.7
2010	124.7	18.9
2011	138.2	16.8
2012	167.7	17.1

Top Irish export sectors to US (€ bn) and remaining US tariffs (%)



Jobs in Ireland from foreign controlled firms

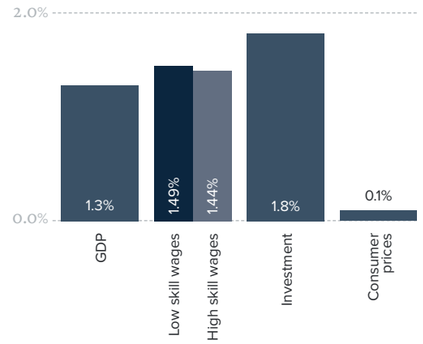


Ireland and TTIP – Expected effects

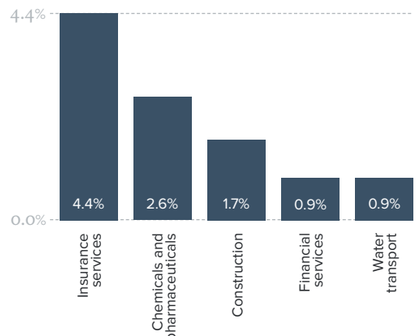
Ireland has a very strong economic relationship with the US, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and more investments.

GDP is expected to increase permanently by 1.3 percent, and exports to the US are expected to increase by 19 percent.

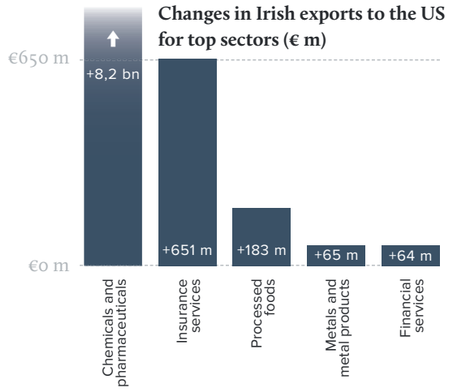
Macro-economic changes in Ireland due to TTIP (%)



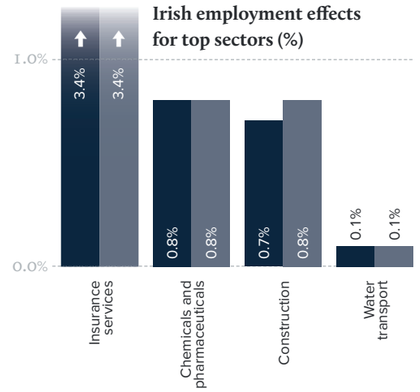
Changes in Irish production for top sectors (%)



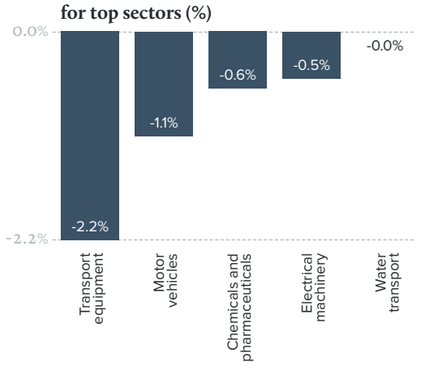
Changes in Irish exports to the US for top sectors (€ m)



Irish employment effects for top sectors (%)



Changes in Irish consumer prices for top sectors (%)



For Ireland, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

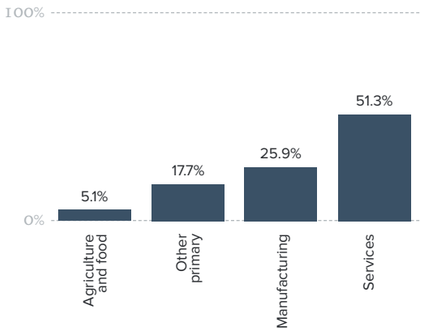
- The insurance and chemicals sectors are expected to grow most, but the production of electrical machinery, motor vehicles and agriculture may decline;
- TTIP could facilitate a significant increase in production and export of insurance services (+4.4 percent, +€651 m) and chemicals (+2.6 percent, +€8.2 bn).
- For Irish companies the price for transport equipment is expected to decrease by 2.1 percent and Irish consumers will pay 1.1 percent less for a car because of TTIP.

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

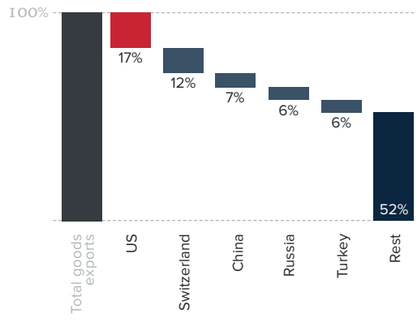
Italy and the US – The current situation

Italy is predominantly a services economy, but with significant value added in manufacturing and other primary products as well. Around 400.000 Italian jobs come from US controlled firms active in Italy. The US is the main (extra-EU) goods export destination (17 percent of goods exports) and main (extra-EU) services export destination (27 percent of services exports) for Italy. The main export sectors for Italy to the US are machinery, chemicals and pharmaceuticals, transport equipment and business and ICT services.

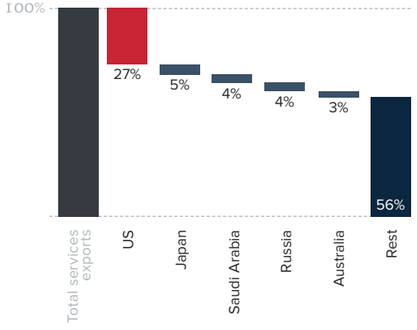
Structure of the Italian economy (%)



Total (extra-EU) Italian goods exports (%)



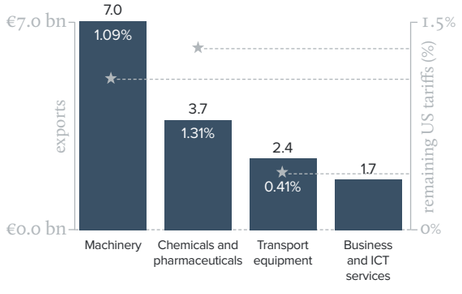
Total (extra-EU) Italian services exports (%)



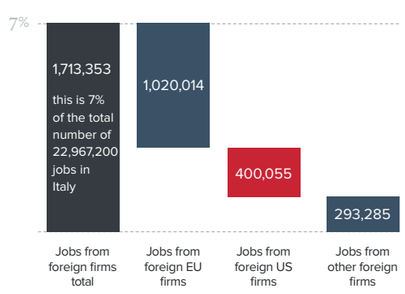
Investments between Italy and the US (€ bn)

Year	Investments from the US to Italy	Investments from Italy to the US
2009	22.4	13.9
2010	21.3	15.8
2011	20.1	15.8
2012	22.3	17.9

Top Italian export sectors to US (€ bn) and remaining US tariffs (%)



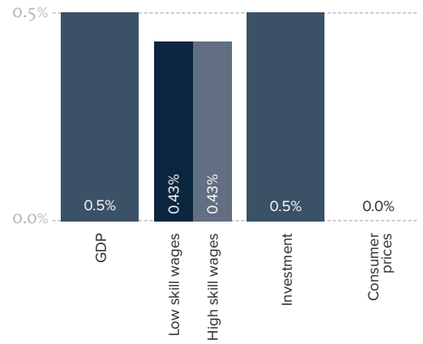
Jobs in Italy from foreign controlled firms



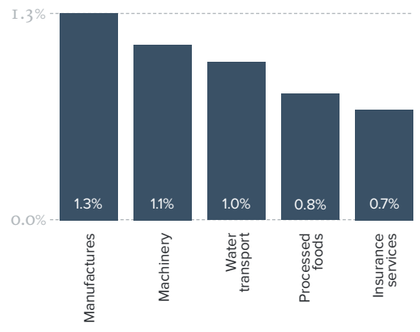
Italy and TTIP – Expected effects

Italy has a strong economic relationship with the US, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and more investments. GDP is expected to increase permanently by 0.5 percent, exports to the US are expected to increase by 21 percent and consumer prices will not change.

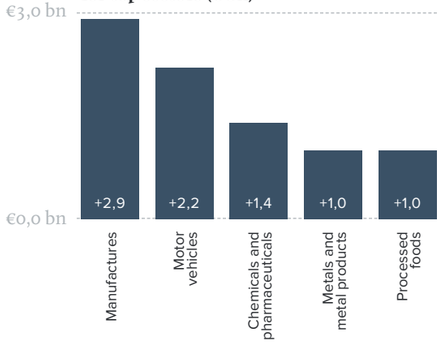
Macro-economic changes in Italy due to TTIP (%)



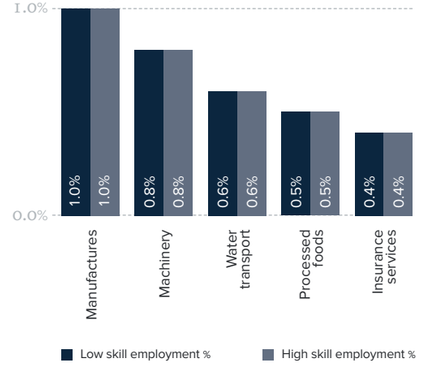
Changes in Italian production for top sectors (%)



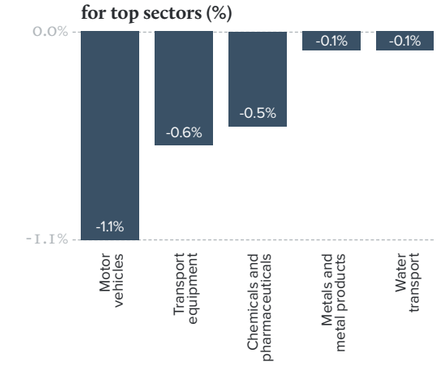
Changes in Italian exports to the US for top sectors (€ bn)



Italian employment effects for top sectors (%)



Changes in Italian consumer prices for top sectors (%)



For Italy, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

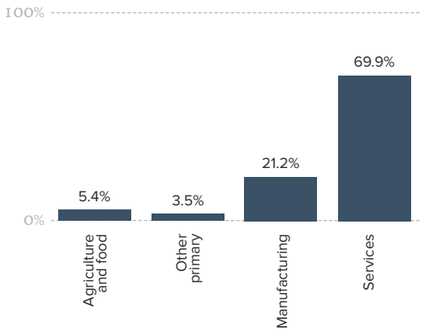
- The manufactures, machinery, transport and processed foods sectors are expected to grow most, but electrical machinery and motor vehicles production may decline;
- TTIP could facilitate a significant increase in production of manufactures by firms in Italy (+1.3 percent). Exports are poised to increase most for manufactures (+€ 2.9 bn);
- For Italians the price for an average car could go down by 1.1 percent because of TTIP.

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

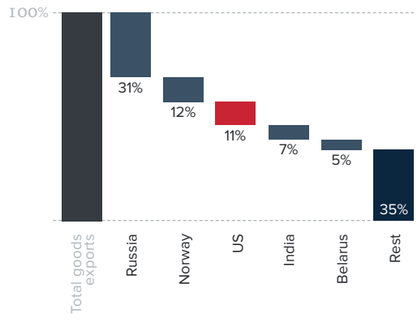
Latvia and the US – The current situation

Latvia is predominantly a services economy but with significant value added in manufacturing as well. Just under 7.000 Latvian jobs come from US controlled firms active in Latvia. The US is the 3rd most important (extra-EU) goods export destination (11 percent of goods exports and the 2nd main (extra-EU) services export destination (12 percent of services exports) for Latvia. The main export sectors for Latvia to the US are beverages and tobacco, machinery, and chemicals and pharmaceuticals.

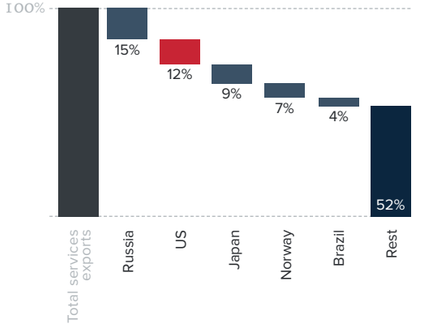
Structure of the Latvian economy (%)



Total (extra-EU) Latvian goods exports (%)



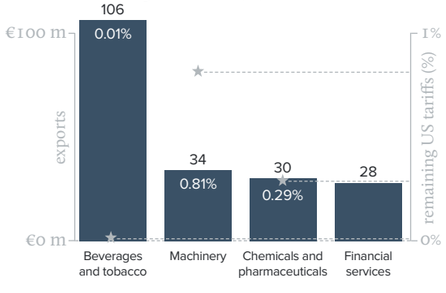
Total (extra-EU) Latvian services exports (%)



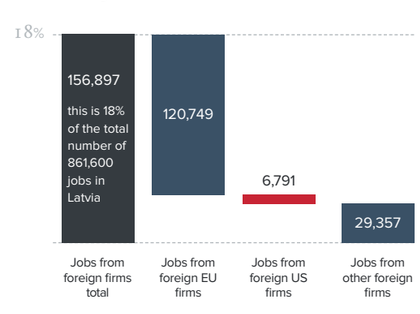
Investments between Latvia and the US (€ m)

Year	Investments from the US to Latvia	Investments from Latvia to the US
2009	7.0	-1.0
2010	2.0	N/A
2011	-2.0	0.0
2012	N/A	N/A

Top Latvian export sectors to US (€ m) and remaining US tariffs (%)



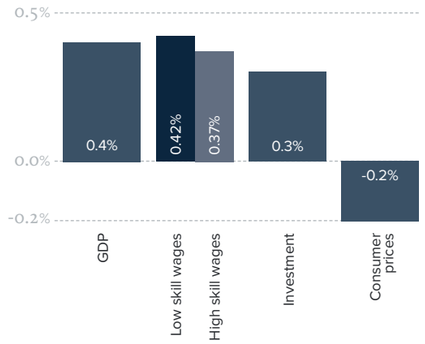
Jobs in Latvia from foreign controlled firms



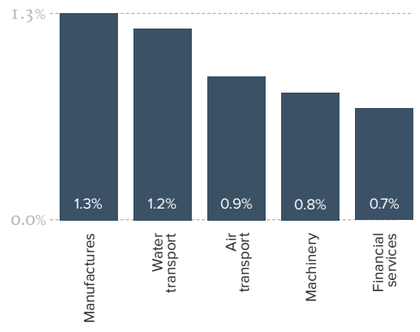
Latvia and TTIP – Expected effects

Latvia does not have a very strong economic relationship with the US. Nonetheless, TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, more investments, and lower prices. GDP is expected to increase permanently by 0.4 percent, exports to the US are expected to increase by 15 percent and consumer prices will go down by 0.2 percent.

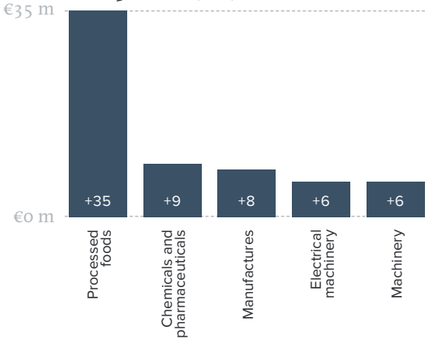
Macro-economic changes in Latvia due to TTIP (%)



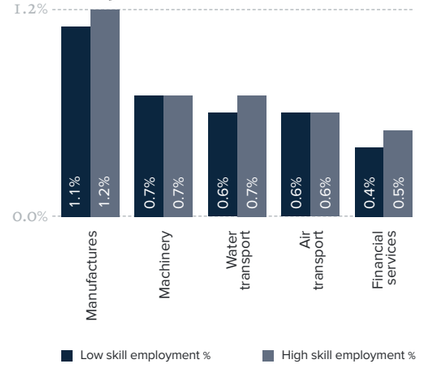
Changes in Latvian production for top sectors (%)



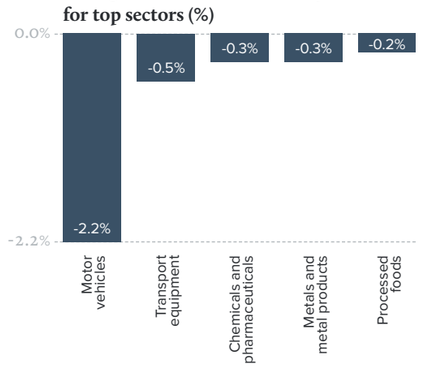
Changes in Latvian exports to the US for top sectors (€ m)



Latvian employment effects for top sectors (%)



Changes in Latvian consumer prices for top sectors (%)



For Latvia, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- Mainly the manufactures sector, but also the machinery, water and air transport sectors are expected to grow most, but motor vehicle production may decline;
- TTIP could facilitate a significant increase in production of manufactures by firms in Latvia (+1.3 percent). Exports are poised to increase most in the processed foods sector (+€35 m);
- For Latvians, the prices would be lower for motor vehicles (-2.2 percent) and transport equipment (-0.5 percent).

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

INSERT 5: TTIP AND SMALL- AND MEDIUM SIZE ENTERPRISES (SMEs)

By: Dr. Umberto Marengo and Prof. dr. Andrea Renda[6]

"At present, SMEs are still confronted with significant barriers when trading across the Atlantic, and the ongoing economic crisis in the EU has hit SME exports disproportionately hard."

[6] Prof. Dr. Andrea Renda is professor at Rome University and senior research fellow at CEPS. Dr. Umberto Marengo is post-doc researcher at Cambridge University.

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Summary

SMEs are the employment backbone of both the EU and US economies. In the EU, the more than 20 million SMEs represent 99 percent of all businesses. It is clear that a successful TTIP can only be one that fosters the competitiveness of smaller firms. At present, SMEs are still confronted with significant barriers when trading across the Atlantic, and the ongoing economic crisis in the EU has hit SME exports disproportionately hard. Research also shows that the non-tariff measures between the EU and US are disproportionately prohibitive for SMEs. Barriers exist through costs of adjustment to different regulatory systems, costs of customs procedures, rules of origin certifications, tax requirements and immigration procedures, and difficulties accessing information on opportunities to do business in other countries. These barriers are especially problematic for SMEs who lack the resources of large enterprises to overcome these regulatory differences. There is therefore a significant untapped potential for deeper integration of SMEs in transatlantic value chains and for boosting competitiveness vis-à-vis the rest of the world – a potential TTIP could help to unleash. In the market access pillar of the negotiations every effort should be made to eliminate the remaining tariffs. In the regulatory cooperation chapter, regulatory burdens and overlaps in regulations, and certification should be addressed and removed. In the rules pillar, the issues of patents and IPR should be addressed. It is welcome that the agreement is set to include a dedicated SME chapter in order to provide SMEs with easily accessible and adequate information on how to expand their business, and to support SMEs in identifying and securing international business opportunities.

SMEs and transatlantic trade

SMEs form the backbone of both the EU and US economies – in the US, firms with less than 500 employees account for almost half of all non-agricultural GDP and employment;[61] meanwhile, in Europe, SMEs account for 99 percent of all businesses, 67 percent of all employment and 58 percent of gross value added.[62] A successful TTIP therefore will only be one that fosters the competitiveness and employment growth of smaller firms.

TTIP has the potential to boost SME internationalisation to an unprecedented extent. A recent paper published by the European Commission reports that *"US and EU negotiators are working to ensure that SMEs are in a position to take full advantage of the opportunities that an agreement would provide"*, and that *"as part of this effort, negotiators are discussing the inclusion of a chapter dedicated to SME issues"*, which would inter alia *"establish mechanisms for both sides to work together to facilitate SMEs' participation in transatlantic trade after TTIP takes effect"*.[63] At the same time, concerns are being raised on possible negative impacts that TTIP, especially in specific chapters, might end up exerting on SMEs, as well as on the existing disconnect between the trade talks and the real needs of smaller firms.[64] Such negative impacts mostly take the form of compliance costs and administrative burdens, which typically affect smaller firms more than large firms. In a separate in-depth report by the European Commission based on a survey of EU SMEs conducted by the European Commission together with Ecorys[65], Ecorys found a total of 1200 perceived barriers facing SMEs seeking to trade with the US.[66] TTIP aims to clearly address these issues and make trading easier for SMEs on both sides of the Atlantic.

Despite the fact that the EU and the US are already deeply integrated economies, SMEs are still confronted with significant difficulties in trading across the Atlantic. This problem is magnified because SMEs very often lack the resources that large enterprises can call upon to overcome these regulatory differences. As a consequence, only 13 percent of SMEs in the EU export outside the EU Internal Market.[67] Furthermore, the ongoing economic downturn in Europe has contributed to a slowdown of SME-related trade whereas large enterprise trade and intra-firm trade have been less affected. However, trade between affiliates on both sides of the Atlantic has proven to be more resilient during the crisis in comparison with SMEs, in particular from the EU side. Exports to the US among related parties increased by 12 percent in the period 2007-2012, while the remainder (unaffiliated exports) increased by only 6 percent.[68] There is therefore an untapped potential for deeper integration of SMEs in transatlantic value chains and for boosting competitiveness vis-à-vis the rest of the world. TTIP could be a tool to allow SMEs to reap the benefits from deeper integration.

Specific challenges faced by SMEs

SMEs face specific challenges in entering foreign markets compared to larger companies. The European Commission and the US International Trade Commission have run a series of consultations that highlighted six broad cross-sectoral factors that create disproportionate burdens to SMEs:[69]

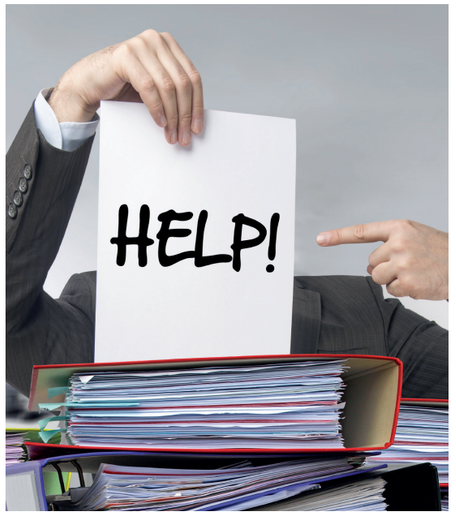
- The cost of adjusting to different regulatory systems in different jurisdictions;
- Costs related to the protection of Intellectual Property Rights (IPRs), most notably patents;
- The cost of customs procedures, rules of origin certifications, and tax requirements;
- Costs related to immigration procedures;
- Difficulties in collecting information on the opportunities offered by doing business across borders;
- Uncertainty and limited access to public procurement markets.

Additional burdens occur through the significant regulatory differences that exist between the EU and the US that differentiate the two economic blocs. For example, each of the fifty US States features different and specific limitations to foreign companies wishing to access state-level public procurement. In Europe, the EU has established a harmonised system of tariffs but its Member States still have different custom procedures in place. The Word Bank "Trade across Barriers" index reports significant diversity in market access within the EU. Denmark, Estonia, and Sweden are among the ten most efficient countries in terms of import/export procedures (i.e. number of documents required, days, and costs). On the contrary, countries including Italy, Spain, Greece, and Poland have more complex and lengthy import/export procedures. As a result, harmonisation of customs procedures would have particularly positive effects for those countries with more complex procedures and could support their international market penetration. Differences in service market regulation across both the EU Member States and US states also pose challenges to SME market access. Not surprisingly, the recently published factsheet of the European Commission on the SME chapter states that: *"Anything that will be achieved in TTIP to remove customs duties, simplify customs procedures, reduce the cost of diverging standards, and improve protection of intellectual property rights will be particularly good for small businesses"*.[70]

The opportunities for SMEs created by TTIP

TTIP offers an opportunity to support the internationalisation of SMEs through the development of all three pillars currently under discussion: market access, regulatory cooperation, and rules.

On market access, TTIP should focus on removing transatlantic tariffs, simplifying rules of origin certification, and providing better information and access to public procurement. On average, EU and US weighed tariff barriers are already relatively low (3.3 percent for the EU and 2.2 percent for the US weighted average) but selected products are still subject to high tariff peaks: a reduction could have significant positive effects for specialised SMEs in particular sectors. In addition, many SMEs cannot afford to change production processes to comply with different or divergent rules of origin certification. Further measures could be introduced to target and support SME exports. Duty-free exemptions for packages shipped by small businesses entering the US and EU could be raised to $800, the standard offered to travellers arriving to the United States by air.



Finally, TTIP could provide for a flexible system of visa solutions for SMEs that do not have a branch in their export market. In particular, European SMEs face significant difficulties when undertaking, for example, installation work abroad due to strict visa regulations and labour restrictions. These effects would be beneficial for both EU and US SMEs and thus potentially create more competition in the transatlantic marketplace. One concern some SMEs have is that an expansion of transatlantic trade could also include the further expansion of large giant retailers and IT companies, further increasing the level of competition they face.

The second TTIP pillar is perhaps the most complex and ambitious part of the agreement, involving the reduction of non-tariff barriers to trade. The cost of complying with different regulatory systems in the EU and the US is proportionally higher for SMEs than for larger companies. Regulatory cooperation across the Atlantic has the potential to unlock vast new market

opportunities, but the complexity of the issue requires negotiators to adopt an objective-driven functional approach rather than to focus on each case's technical specifications. Regulatory alignment should follow the "Better Regulation" approach that in principle inspires EU legislation. Regulations should be justified by market failures, be based on an evidence-based risk assessment, and discussed through open consultations.[72] SME participation in the definition of regulations (and legislation) is a precondition for success. In the definition of the regulatory chapter, TTIP negotiators should introduce an "SME test" to assess with the affected industry representatives, the potential impact of the agreement on SMEs (the EU Commission already introduced its own "SME test" in 2013).

The final pillar of TTIP negotiations, trade rules, should include ambitious provisions on IPRs and trade secrets. Trade secrets are particularly important to SMEs because, unlike patents, they can be protected without registration or filing formalities, and they are less expensive to maintain and enforce. In this instance, the US has more stringent policies on trade secrets than the EU. For example, customer disclosure obligations on cosmetics' ingredients in the US are less stringent than in the EU. TTIP will thus have to strike the right balance between consumer protection on the one side and IPRs protection on the other. Furthermore, an ambitious transatlantic agreement on IPRs could push for further integration and harmonisation within the EU on patent protection. The European Commission estimates that obtaining EU-wide patent protection costs approximately €36,000 per firm, mainly due to high translation costs and local fees in the EU Member States, compared to approximately $2,600 in the US. The EU has recently taken steps to create a more cost-friendly EU-wide patenting system, and TTIP provides an opportunity to implement new measures to support this decision in a short period of time. Needless to say that this would also have significant positive repercussions on the EU Internal Market. Finally, the simplification of custom procedures is one of the main priorities for SMEs, especially security measures that duplicate controls or turn out to be particularly burdensome (e.g. the X-ray scanning of products).

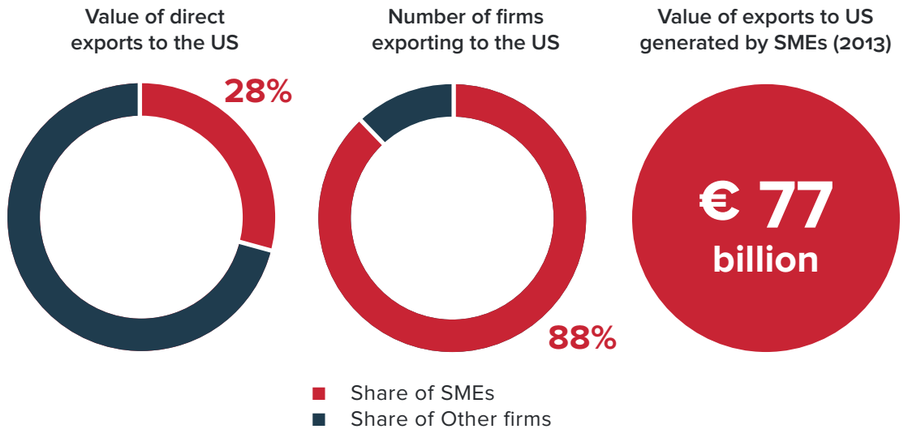
A dedicated chapter on SMEs

In addition to trade provisions, negotiators have proposed to introduce a standalone chapter that would include specific "trade supporting" provisions for SMEs. The US and their ASEAN partners have included an SME chapter in the TransPacific Partnership (TPP), modelled after the work done under the APEC forum to support SME internationalisation.

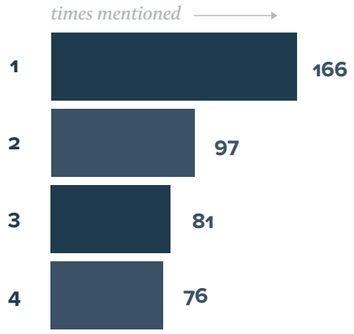
The objective of an SME chapter should be twofold. First, it should provide SMEs with easily accessible and adequate information on how to expand their business abroad. This would commit both parties to facilitate SMEs' access to information on EU and US regulations (i.e. rules of origin, tariffs, customs policies, etc.), trade facilitation provisions, or exchange of information on best practices. This initiative could encourage SMEs to make full use of any future agreement, but it cannot be expected that it will have a transformative effect on SME exports. The second objective should be to support SMEs in identifying and securing international business opportunities. Traditionally, however, business support services for SMEs have a low take up and, in the EU, internationalisation programs are managed by EU Member States. A European supply of services for SMEs in priority markets should thus be incorporated into existing national service providers. Overall, the expansion to foreign markets is a key priority for SMEs across the Atlantic and TTIP has the potential to support this process. In view of the complexity of the negotiation and the risk of regulatory capture, SMEs should be engaged at all stages of the negotiation to analyse the specific impact of TTIP on SMEs on a sector-by-sector basis.

At the same time, it would be very useful to acknowledge that SMEs are affected by all chapters of TTIP: simply devoting a dedicated chapter to SMEs in the TTIP negotiations would not be of sufficient help, if in all other chapters the agreement leads to provisions that will put SMEs at a disadvantage. Confining SMEs to an individual chapter, possibly leading to a plethora of dissemination and awareness-raising activities, is as commendable as it is risky. Adopting a thorough "SME test" for the various chapters under discussion would serve the interests of smaller companies as an additional effective method to ensure that SMEs best reap the benefits that TTIP could bring them.

Infographic 4: Survey on SMEs and TTIP

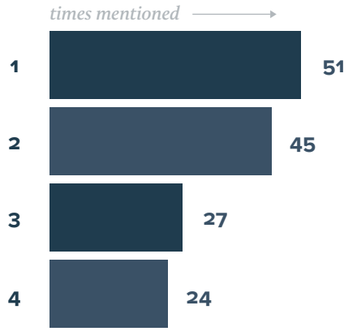


Four most often perceived US barriers by EU SME *goods* exporters



1. Differences in technical rules that affect the product;
2. US border crossing procedures;
3. Regulatory differences (human, animal and plant health; biodiversity);
4. Specific taxes and charges.

Four most often perceived US barriers by EU SME *services* exporters



1. Restrictions on the movement of people;
2. Discriminatory measures and standards;
3. Barriers to competition and public ownership;
4. Restrictions on foreign ownership of firms/companies and other market entry conditions.

Source: Ecorys (2015) SME Survey

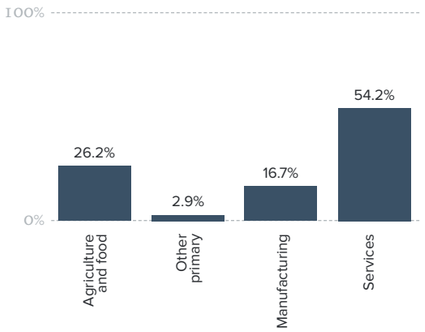
THE CURRENT SITUATION AND EXPECTED TTIP EFFECTS FOR

LITHUANIA
LUXEMBOURG
MALTA
THE NETHERLANDS

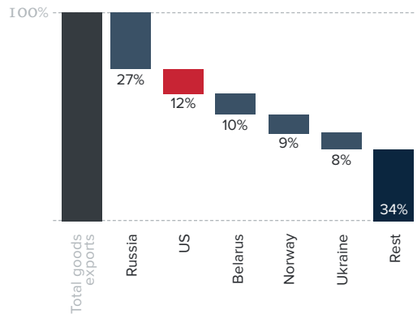
Lithuania and the US – The current situation

Lithuania is predominantly a services economy, but with relatively the largest share of valued added in agriculture and food compared to any other EU Member State. Just under 10.000 Lithuanian jobs come from US controlled firms active in Lithuania. The US is the 2nd main (extra-EU) goods export destination (12 percent) and the 2nd main services export destination (13 percent) for Lithuania. The main export sectors for Lithuania to the US are petrochemicals, and chemicals and pharmaceuticals.

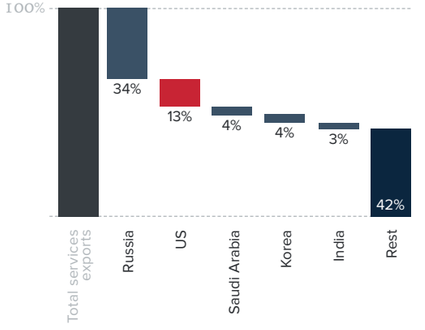
Structure of the Lithuanian economy (%)



Total (extra-EU) Lithuanian goods exports (%)



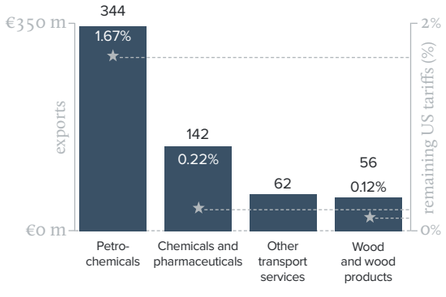
Total (extra-EU) Lithuanian services exports (%)



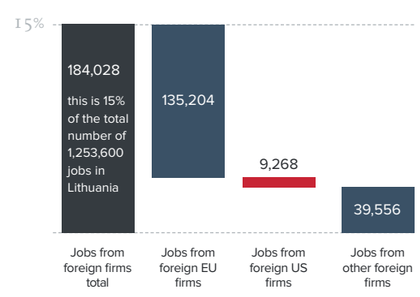
Investments between Lithuania and the US (€ m)

Year	Investments from the US to Lithuania	Investments from Lithuania to the US
2009	N/A	-7
2010	N/A	-2
2011	N/A	-3
2012	N/A	-2

Top Lithuanian export sectors to US (€ m) and remaining US tariffs (%)



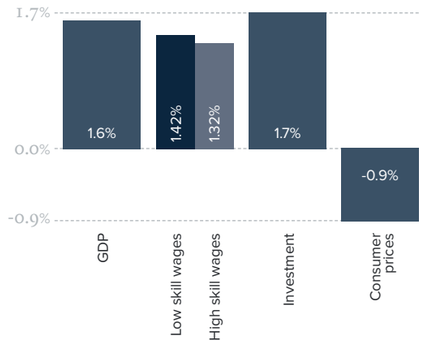
Jobs in Lithuania from foreign controlled firms



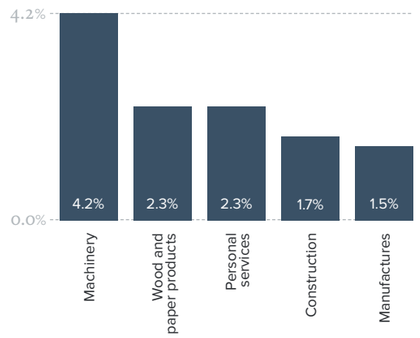
Lithuania and TTIP – Expected effects

Lithuania does not have a very strong economic relationship with the US. Nonetheless, TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, more investments, and significantly lower prices. GDP is expected to increase permanently by 1.6 percent, exports to the US are expected to increase by 18 percent and consumer prices will go down by 0.9 percent. Investments are expected to rise significantly by 1.7 percent.

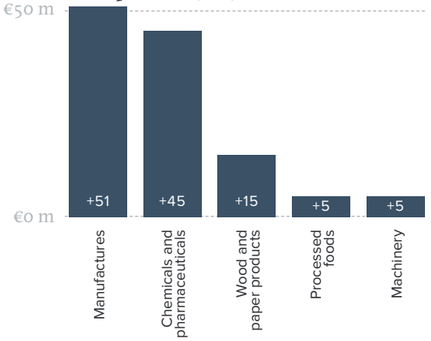
Macro-economic changes in Lithuania due to TTIP (%)



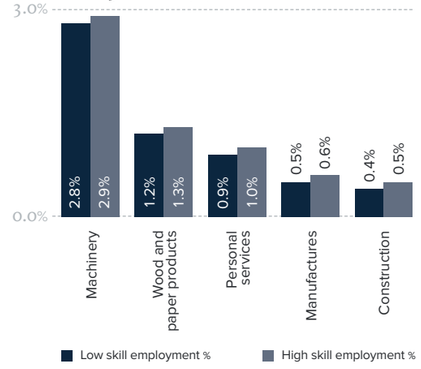
Changes in Lithuanian production for top sectors (%)



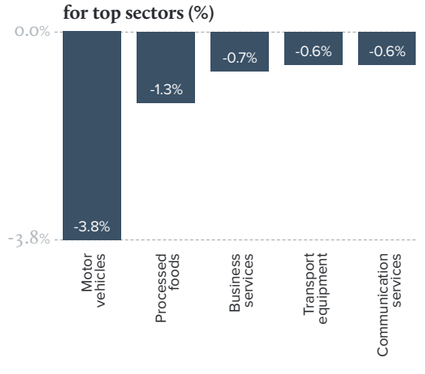
Changes in Lithuanian exports to the US for top sectors (€ m)



Lithuanian employment effects for top sectors (%)



Changes in Lithuanian consumer prices for top sectors (%)



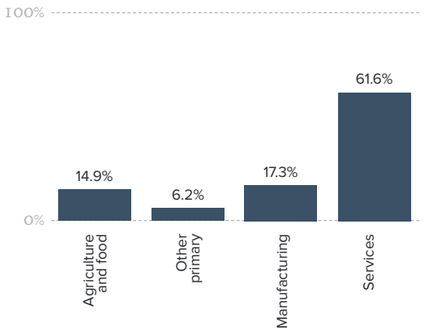
For Lithuania, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- The machinery, wood and paper products, and personal services sectors are expected to grow most, but electrical machinery and motor vehicles production may decline;
- TTIP could facilitate a significant increase in the production of machinery (+4.2 percent). Exports are poised to increase most in the manufactures sector (+€51 m) and the chemicals sector (+€45 m);
- For Lithuanians, the price for an average car could go down by 3.8 percent because of TTIP.

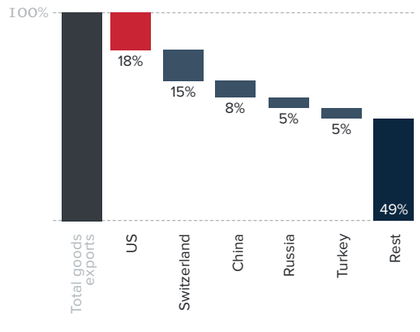
Luxembourg and the US – The current situation

Luxembourg is predominantly a services economy, but with sizeable value added in the agriculture and manufacturing sectors. Around 13.000 jobs in Luxembourg come from US controlled firms active in Luxembourg. The US is the main (extra-EU) goods export destination (18 percent) and services export destination (38 percent) for Luxembourg. The main export sectors for Luxembourg to the US are financial services, insurance services, communication services, and business and ICT services.

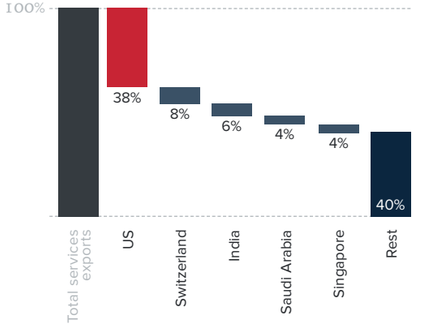
Structure of the Luxembourg economy (%)



Total (extra-EU) Luxembourg goods exports (%)



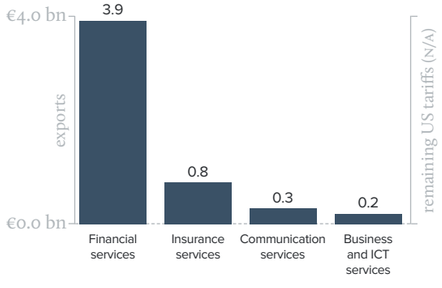
Total (extra-EU) Luxembourg services exports (%)



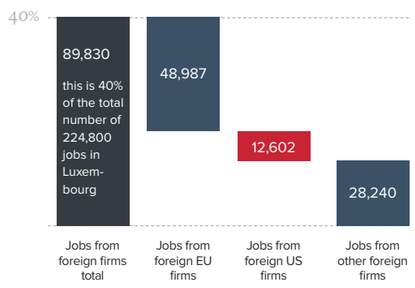
Investments between Luxembourg and the US (€ bn)

Year	Investments from the US to Luxembourg	Investments from Luxembourg to the US
2009	163.9	103.7
2010	213.7	133.7
2011	267.7	128.8
2012	316.6	154.5

Top Luxembourg export sectors to US (€ bn) and remaining US tariffs (N/A)



Jobs in Luxembourg from foreign controlled firms

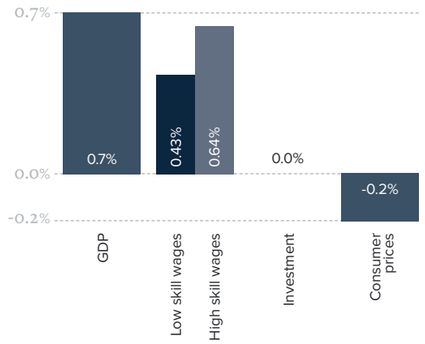


Luxembourg and TTIP – Expected effects

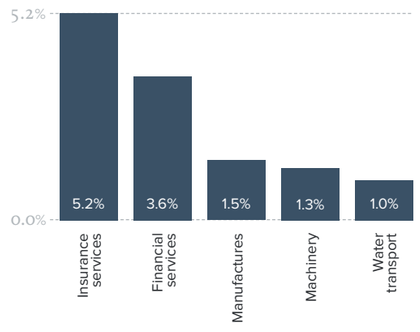
Luxembourg has a strong economic relationship with the US (especially in services), and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and lower consumer prices.

GDP is expected to increase permanently by 0.7 percent, exports to the US are expected to increase by 10 percent and consumer prices will go down by 0.2 percent.

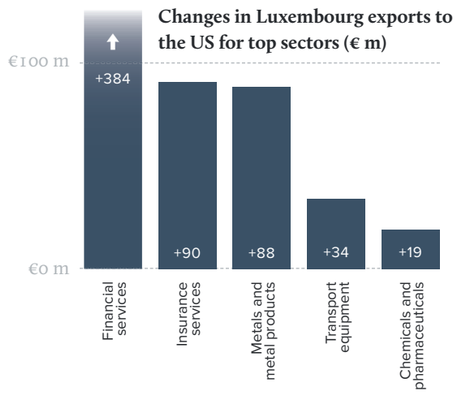
Macro-economic changes in Luxembourg due to TTIP (%)



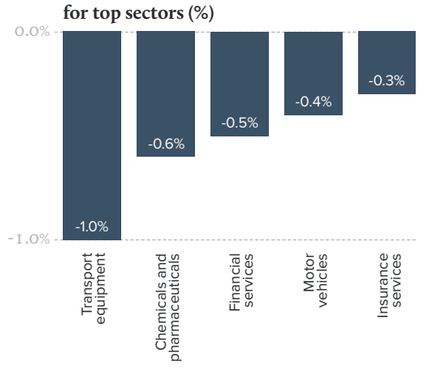
Changes in Luxembourg production for top sectors (%)



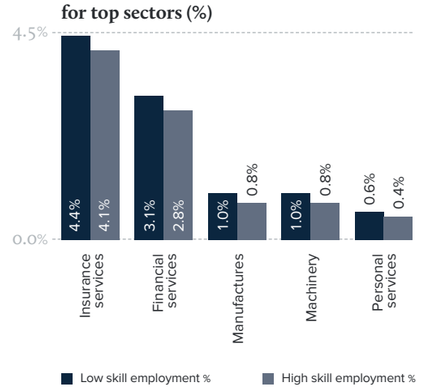
Changes in Luxembourg exports to the US for top sectors (€ m)



Changes in Luxembourg consumer prices for top sectors (%)



Luxembourg employment effects for top sectors (%)



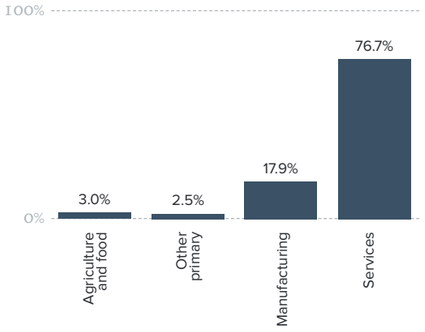
For Luxembourg, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- The insurance services, financial services and manufactures sectors are expected to grow most, but the electrical machinery sector may decline;
- TTIP could facilitate a significant increase in production of insurance services (+5.2 percent) and financial services (+3.6 percent). The largest export expansion is expected in financial services (+€384 m);
- For firms in Luxembourg the price for transport equipment could go down by 1.0 percent because of TTIP, and the prices for chemicals and pharmaceuticals by 0.6 percent.

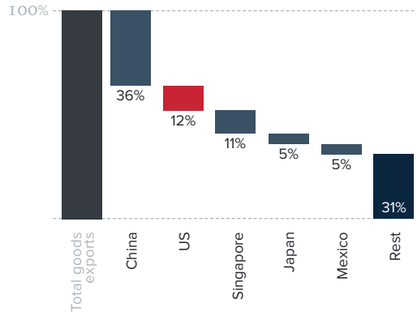
Malta and the US – The current situation

Malta is predominantly a services economy but also has a significant manufacturing base. Around 2.000 jobs in Malta come from US controlled firms active in Malta. The US is the 2nd most important (extra-EU) goods export destination (12 percent of goods exports, after China with 36 percent) and also the 2nd most important (extra-EU) services export destination (14 percent, after Canada with 15 percent) for Malta. The main export sectors for Malta to the US are office machinery, financial services, and machinery.

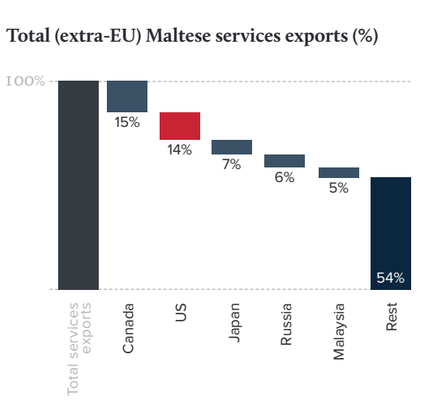
Structure of the Maltese economy (%)



Total (extra-EU) Maltese goods exports (%)



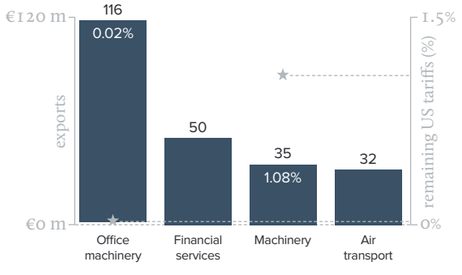
Total (extra-EU) Maltese services exports (%)



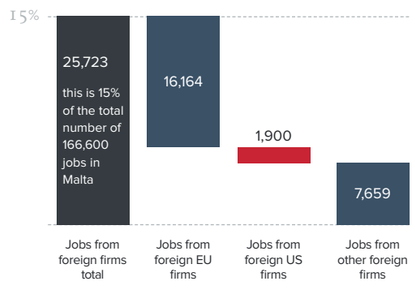
Investments between Malta and the US (€ bn)

Year	Investments from the US to Malta	Investments from Malta to the US
2009	1.1	N/A
2010	1.5	1 m
2011	0.8	N/A
2012	N/A	19 m

Top Maltese export sectors to US (€ m) and remaining US tariffs (%)



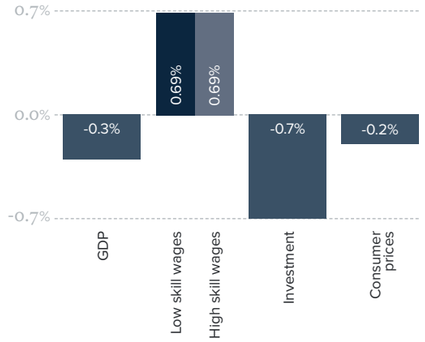
Jobs in Malta from foreign controlled firms



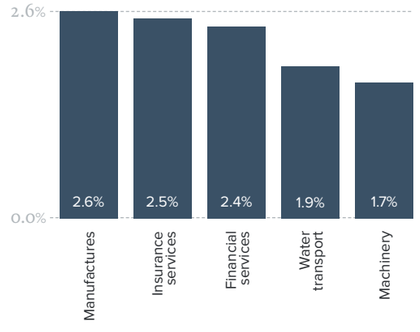
Malta and TTIP – Expected effects

Malta does not have a very strong economic relationship with the US. Nonetheless, TTIP would contribute to higher wages for both low- and high-skilled workers and lower consumer prices, but Maltese GDP is expected to decline by 0.3 percent. Exports to the US are expected to increase by 23 percent and consumer prices will go down by 0.2 percent.

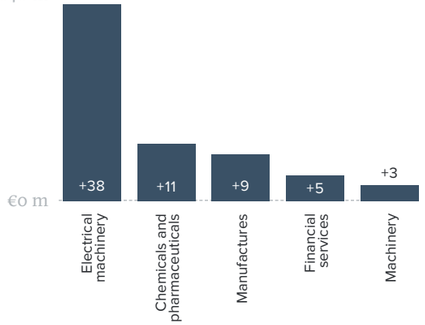
Macro-economic changes in Malta due to TTIP (%)



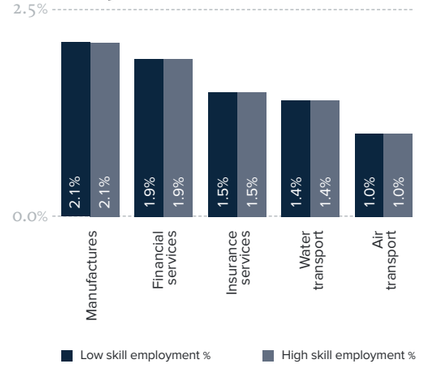
Changes in Maltese production for top sectors (%)



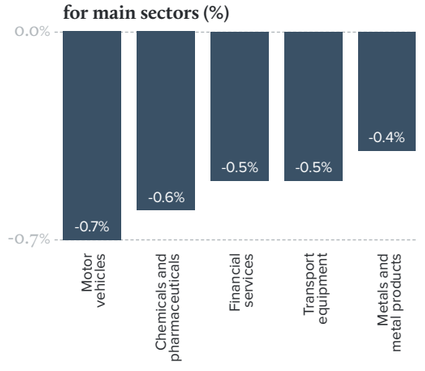
Changes in Maltese exports to the US for top sectors (€ m)



Maltese employment effects for top sectors (%)



Changes in Maltese consumer prices for main sectors (%)



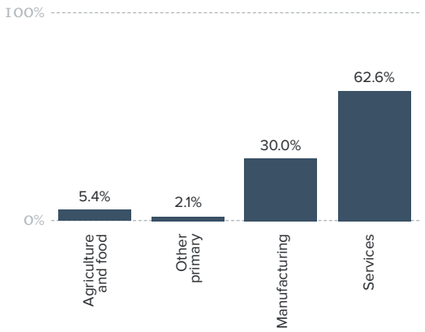
For Malta, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- The manufactures sector, financial and insurance services sectors are expected to grow most, but the motor vehicles industry may decline;
- TTIP could facilitate a significant increase in production of manufactures (+2.6 percent), and insurance services (+2.5 percent). Electrical machinery is poised to see the largest export increase (+€38 m);
- For Maltese consumers, the price for cars could go down by 0.7 percent because of TTIP, and the price for chemicals by 0.6 percent.

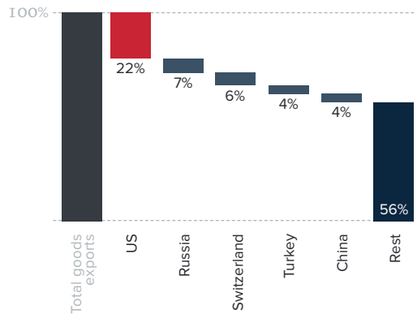
The Netherlands and the US – The current situation

The Netherlands is predominantly a services economy, but also has a sizeable manufacturing sector. Over 300.000 Dutch jobs come from US controlled firms active in the Netherlands. The US is the main (extra-EU) goods export destination (22 percent) and services export destination (21 percent) for the Netherlands. The main export sectors for the Netherlands to the US are chemicals and pharmaceuticals, machinery, business and ICT services, and petrochemicals.

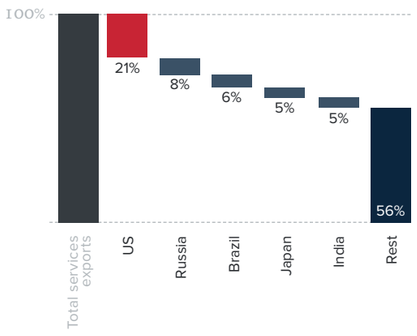
Structure of the Dutch economy (%)



Total (extra-EU) Dutch goods exports (%)



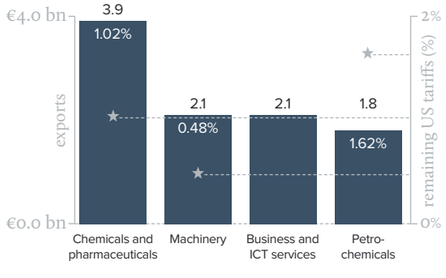
Total (extra-EU) Dutch services exports (%)



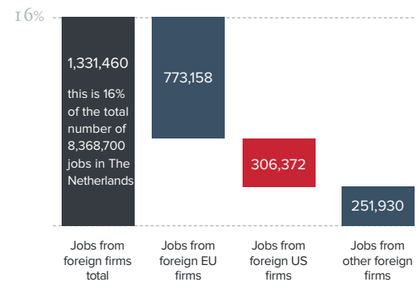
Investments between The Netherlands and the US (€ bn)

Year	Investments from the US to The Netherlands	Investments from The Netherlands to the US
2009	372.1	154.6
2010	404.0	184.0
2011	445.6	166.4
2012	541.5	222.4

Top Dutch export sectors to US (€ bn) and remaining US tariffs (%)



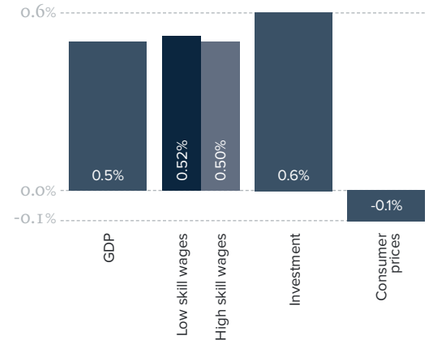
Jobs in The Netherlands from foreign controlled firms



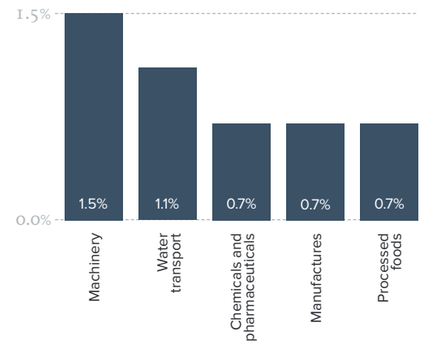
The Netherlands and TTIP – Expected effects

The Netherlands has a strong economic relationship with the US, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, more investments and lower prices for consumers. GDP is expected to increase permanently by 0.5 percent, exports to the US are expected to increase by 14 percent and consumer prices will go down marginally by 0.1 percent.

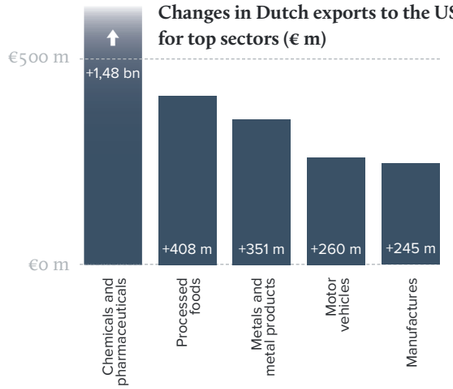
Macro-economic changes in The Netherlands due to TTIP (%)



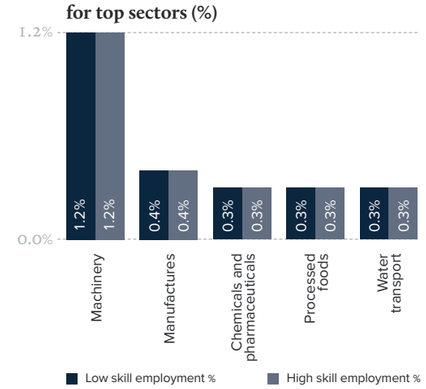
Changes in Dutch production for top sectors (%)



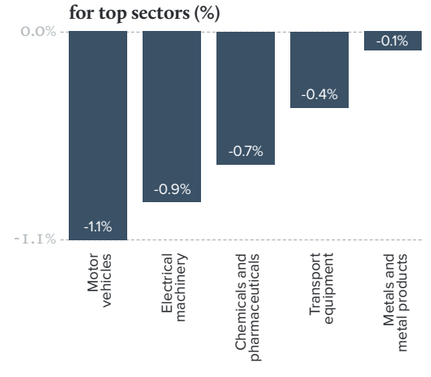
Changes in Dutch exports to the US for top sectors (€ m)



Dutch employment effects for top sectors (%)



Changes in Dutch consumer prices for top sectors (%)



For The Netherlands, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- The machinery sector, water transport, and chemicals and pharmaceuticals sectors are expected to grow most, but electrical machinery and motor vehicle production may decline;
- TTIP could facilitate a significant increase in production of machinery by firms in the Netherlands (+1.5 percent). Exports are poised to increase most for the chemicals sector (+€1.5 bn);
- For the Dutch the price for an average car could go down by 1.1 percent because of TTIP, and the price of electrical machinery by 0.9 percent.

INSERT 6: TTIP AND INVESTOR PROTECTION

By Dr. Freya Baetens[7] and Prof. Dr. Christian Tietje[8]

"There is limited evidence that earlier versions of ISDS have curtailed regulation or caused 'regulatory chill' – but it is important that the right to regulate is upheld."

[7] Dr. Freya Baetens is associate professor of Law, director of studies at Leiden University College (LUC) and head of the LUC Research Centre at Leiden University. She is also an associate professor at the Europa Institute of the Leiden Law School.

[8] Prof. Dr. Christian Tietje is professor in Public Law, European Law and International Economic Law, director of the Institute for Economic Law, and director of the Transnational Economic Law Research Center (TELC) at the Faculty of Law, Economics and Business at the Martin Luther University Halle-Wittenberg, Germany.

Summary

TTIP's proposed investment protection standards and dispute settlement mechanism have provoked debate among governments, private industry and civil society on its implications in four areas: (1) the protection of the right to regulate; (2) the establishment and functioning of arbitral tribunals; (3) the relationship between domestic judicial systems and ISDS; and, (4) the review of ISDS decisions through an appellate mechanism. Ad 1. Regarding the protection of the right to regulate, this is clearly an important issue, as evidenced by heightened interest on the part of civil society. There is limited evidence that earlier versions of ISDS have curtailed it or caused "regulatory chill" – but it is important that the right to regulate is upheld. ISDS provisions should explicitly detail states' rights to regulate in specified areas of public interest (e.g. social, environmental, human rights) – such that ISDS risks can be mitigated. Ad 2. Regarding arbitral tribunals, it is imperative that there is a code of conduct, a roster of qualified arbitrators, and a set of transparency guidelines – based on the UNCITRAL Rules. Ad 3. Because of time, costs, and in order to curb investors options to pursue claims, the fork-in-the-road provision seems more desirable than sequentially exhausting first the host state's courts and then an international tribunal. Ad 4. An appellate body would provide the option for either party in an ISDS case to appeal a ruling. In fact, provisions should be included as to the exact role of the appeal body – whether it is to correct original decisions or whether it is to remand the case back to the original tribunal. Appropriate risk mitigation options should be included in TTIP, striking a balance between protecting foreign investment as well as the public interest.

The Current Debate on Investor Protection in TTIP

TTIP's proposed investment protection standards and dispute settlement mechanisms have raised questions from governments, private industry and civil society. Of particular concern is the inclusion of an investor-state dispute settlement (ISDS) mechanism, whereby individual foreign investors may bring claims against host state governments for breach of TTIP's investment protection standards. This ISDS system is comparable to what has been included in agreements such as the CETA between the EU and Canada, and the Central American Free Trade Agreement (CAFTA-DR). In reaction to the public debate on ISDS, the European Commission initiated a public consultation in 2014. Reactions from the public were overwhelming; the Commission received around 150,000 replies. Although around 97 percent of the replies were submitted through automatic on-line platforms of interest groups, containing pre-defined negative answers, the European Commission was able to identify the following four topics on which further discussion was necessary:

- The protection of the right to regulate;
- The establishment and functioning of arbitral tribunals;
- The relationship between domestic judicial systems and ISDS; and
- The review of ISDS decisions for legal correctness through an appellate mechanism.

As is clear from a comparison of the investment chapter of CETA with "older" bilateral investment treaties, these four topics have already been taken up in recent negotiations and treaty practice of the EU. Even so, the Commission and stakeholders identified the need for open consultation and communication with civil society on this matter. In its latest negotiating proposal to the US, the EU proposes to drop ISDS and instead create an Investment Court System (ICS). The ICS alternative has already been included in the concluded trade negotiations between the EU and Vietnam. A closer look at ISDS/ICS topics prompts the following conclusions:

The Right to Regulate

There are few, if any, cases to support the theory that investment arbitration has caused states to halt, curtail, or roll back regulations aimed at legitimate policy concerns – even though there are examples where countries have acted to suspend agreements, such as Australia suspending a Bilateral Investment Treaty (BIT) because of a US tobacco company. Although such "regulatory chill", by its very nature, is difficult to prove, there is a considerable paucity of even anecdotal evidence for such a phenomenon despite various ISDS claims over the past twenty years. This is probably for a variety of reasons:

- The vast majority of ISDS claims challenge administrative decisions affecting single investors rather than legislative or regulatory acts per se;
- It is difficult to pinpoint ISDS as the sole cause or tipping point in preventing progressive regulation, especially since regulations impacting areas such as the environment and natural resources usually involve continuous policy debates; and
- A legal analysis of the new generation of BITs and International Investment Agreements (IIAs) suggests that tribunals and states have already begun minimising potential regulatory chill by incorporating a "right to regulate" clause in substantive definitions, general exception clauses and preamble language in new investment agreements. This is also the case in the ICS proposal submitted by the EU.

These conclusions are supported by the analysis of cases from NAFTA and CAFTA, which is a useful comparative tool since they are the most often used ISDS mechanisms for US investors. When examining relevant cases related to policy space under NAFTA and CAFTA, one can draw three primary conclusions:

- Investor claims that succeed in ISDS have not directly challenged any government's authority or ability to regulate within a given policy space. Instead, tribunal awards requiring governments to pay out large sums to investors usually do not involve (in)direct challenges to government regulation and instead involve individual contractual, tax or export control issues;
- Investor claims that directly challenge government regulations, and thus the government's policy space, have never succeeded; and
- There is no scientific evidence (beyond anecdotal unproven assertions) that any government has changed a policy position or refrained from acting in a policy area primarily for fear of potential ISDS claims.

The Establishment and Functioning of Arbitral Tribunals

With regard to ISDS tribunals, the adoption of a code of conduct of arbitrators addressing conflicts of interest and ethics as well as the establishment of a roster of arbitrators which are pre-selected by the states are two further options to improve legitimacy. The former are not entirely new as several codes of conduct already exist and are frequently relied upon, for example to decide on disclosure obligations and arbitrator challenges.

With regard to the latter, it remains to be seen whether a fixed roster of arbitrators would contribute to achieving the desired result. Looking at the list of arbitrators of the Permanent Court of Arbitration (PCA), for example, it is clear that a number of listed persons were not nominated because of any relevant expertise despite the stipulation that arbitrators should have competency in questions of international law and be of the highest moral reputation. This is not a problem in the context of the PCA given that parties to a dispute are not obliged to select an arbitrator from the PCA list. On the contrary, the roster of arbitrators currently designed by the European Commission will have to be employed in case the investor and the respondent state do not agree on the appointment of a Chairperson. Thus, the PCA experience should serve as a cautionary tale for similar endeavours under TTIP.

The functioning of arbitral tribunals should be subject to high standards of transparency. The UNCITRAL Rules on Transparency in Treaty-based Investor-State Arbitration (effective date: 1 April 2014) and the Convention on Transparency in Treaty-based Investor-State Arbitration ("Transparency Convention"), adopted by the UN General Assembly on 10 December 2014 but not yet in force, provide clear guidelines in this regard.

The Relationship between Domestic Judicial Systems and ISDS

Several proposals exist concerning the relationship between domestic judicial systems and ISDS. One often-heard proposal is to require the exhaustion of local remedies before initiating international arbitral proceedings. Such a requirement has not been common practice in International Investment Agreements (IIAs) (neither the US nor the current EU Member State's BITs include it), although international investment law permits parties to reserve the right to set the exhaustion of local remedies offered by the host state's courts as a condition of consent to arbitration.

If the rule of exhaustion of local remedies were to be included, international arbitration would function in effect as a second-level remedy, an "appeal" at an international level after domestic redress has been sought. However, this requirement would result in significant delays (as parties would have to go through two, possibly more, levels of litigation in the host state, taking several years) as well as entail significant additional costs for both the investor and the state.

A fork in the road provision, as a further possibility to protect the domestic judicial system, aims at preventing concurrent or subsequent proceedings before different international or domestic tribunals or courts. According to the fork in the road provision, an investor must choose between bringing its claim before the host state's courts or an international tribunal, such a choice being irreversible. The main rationale of this provision is to avoid contradictory results and to confine the investor to one remedy by forestalling recourse to others. This option seems more desirable than the previous one because it does not entail extra costs and time, while most importantly, it obstructs foreign investors from having a wider range of fora available to pursue a claim, compared with domestic investors.

One intermediate option could be to require the investor to first seek a remedy with the local courts, thereby allowing the state to correct its own errors (if any), but if no satisfactory remedy is forthcoming within a defined period of time (e.g. two years), the investor could launch international proceedings.

Appeal Mechanism

Regarding a possible appeal mechanism, the experience with the WTO Appellate Body is instructive. Practical questions in need of addressing concern the election process of the members of the appeal body as well as its financing. Provisions should be included on whether the appeal body would have the power to correct the original decisions itself or just to remand the case to the original tribunal (under the CETA text the latter option seems to be the most likely to be employed – further adding to the cost and time delay).

The risk exists that as soon as an appeal mechanism is available, the losing party might be pressured by its citizens (in the case of states) or its shareholders (in the case of companies) to appeal the decision, regardless of the chances of success.
WTO experience shows that at the beginning of the

Appellate Body's existence, this was certainly the case (also out of a motivation to "create precedents") but after a number of years, far fewer decisions were appealed. However, when discussing a possible ISDS appeal mechanism in TTIP, one should be aware that any appeal institution might become a de facto law maker as its decisions would have influential effects as precedents.

Areas for Further Improving ISDS

An ISDS mechanism has been included in most BITs over the past decades and has been extensively tested in arbitral practice. Although problematic issues do occur, TTIP could serve an important role in improving the existing ISDS mechanisms by raising the threshold to access international arbitration and affording the entire system with the required legitimacy. International investment law already recognises both the individual economic interests of investors and the public interests of host states. Arbitral tribunals have underlined the importance of "policy space" in several cases.

This, however, does not mean that there is no room for improvement of the system. Any potential risks ISDS may pose for the EU and its Member States can be mitigated through careful and progressive drafting of the agreement. It is possible to include provisions to filter claims, to allow for greater protection for the policy choices of states parties, and to utilise procedural safeguards such as more transparent arbitration rules. These risk mitigation options serve to enhance the benefits of ISDS while striking an appropriate balance between protecting foreign investment as well as the public interest.

An interesting proposal was put forward on 2 March 2015 by Social Democrats from various EU Member States (the so-called Madrid proposal), which incorporates almost all suggestions listed here and advocates the creation of an International Trade and Investment Court: "The choice of arbitrators should be limited to fixed pools of highly qualified arbitrators appointed by the EU, Canada and EU Member States, as far as possible qualified professional judges and academics, while seeking to secure specialist legal expertise". A similar proposition was made by the European Commission in its concept paper of May 2015 "Investment in TTIP and beyond – the path for reform: Enhancing the right to regulate and moving from current ad hoc arbitration towards an Investment Court", and in its latest negotiating proposal where the inception of an Investment Court System is envisaged. Although the establishment of an entire Court might seem rather excessive in view of the fact that it will most likely have very few cases, this proposal could remove the odium that is currently attached to the term "arbitration", while fulfilling the need for an independent international dispute settlement body capable of deciding on individual claims.

Conclusions

As a result of the public consultation on ISDS in 2014, the European Commission has identified four topics for further study and discussion that are now included in the EU proposal to conceive an Investment Court System (ICS). These topics concern the right to regulate, certain aspects of the establishment and functioning of the arbitral tribunals, the relationship between domestic judicial systems and ISDS and the possibility of an appellate mechanism. The right to regulate has already been recognized in BITs and arbitral practice, while mechanisms to ensure the impartiality of arbitrators and the transparency of arbitral proceedings are currently available. This, of course, does not mean it could not be useful to discuss possible further reforms. As to the relationship of domestic courts and ISDS, requiring for the exhaustion of local remedies without any time limit could create severe problems, as recognised in the Madrid proposal. While bearing in mind potential downsides in terms of additional costs and time involved, the creation of an appellate mechanism and an Investment Court System should certainly be considered.

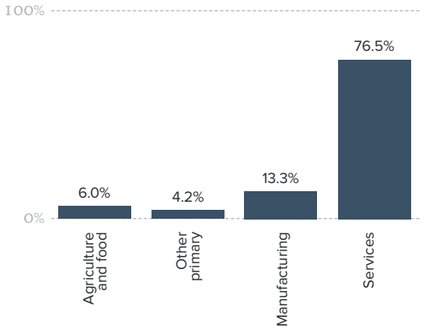
THE CURRENT SITUATION AND EXPECTED TTIP EFFECTS FOR

POLAND
PORTUGAL
ROMANIA
SLOVAKIA

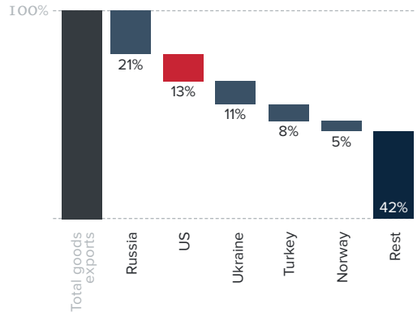
Poland and the US – The current situation

Poland is predominantly a services economy. Around 510.000 Polish jobs come from US controlled firms active in Poland. The US is the 2nd main (extra-EU) goods export destination (13 percent of goods exports) and the main services export destination (20 percent of services exports) for Poland. The main export sectors for Poland to the US are machinery, non-ferrous metals, transport equipment, and transport services.

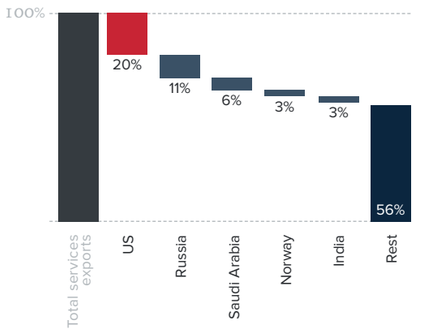
Structure of the Polish economy (%)



Total (extra-EU) Polish goods exports (%)



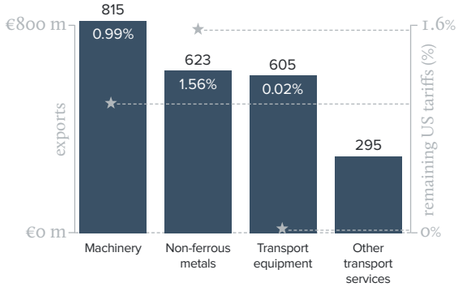
Total (extra-EU) Polish services exports (%)



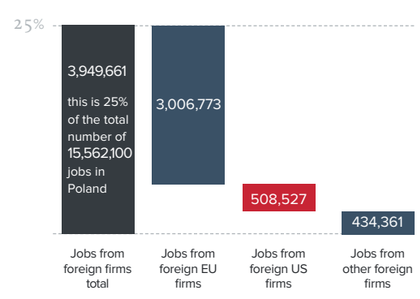
Investments between Poland and the US (€ bn)

Year	Investments from the US to Poland	Investments from Poland to the US
2009	10.0	N/A
2010	10.3	3.4
2011	9.5	4.8
2012	10.8	0.2

Top Polish export sectors to US (€ m) and remaining US tariffs (%)



Jobs in Poland from foreign controlled firms

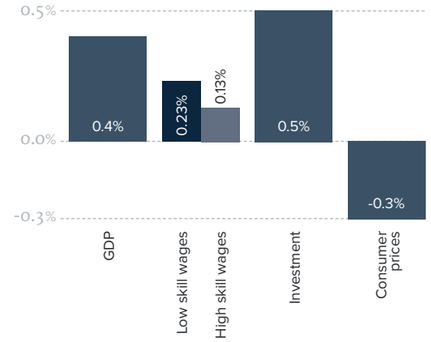


Poland and TTIP – Expected effects

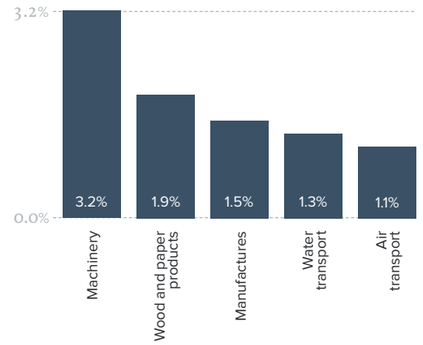
Poland has a strong economic relationship with the US, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, more investments and lower consumer prices.

GDP is expected to increase permanently by 0.4 percent, exports to the US are expected to increase by 26 percent and consumer prices will go down by 0.3 percent.

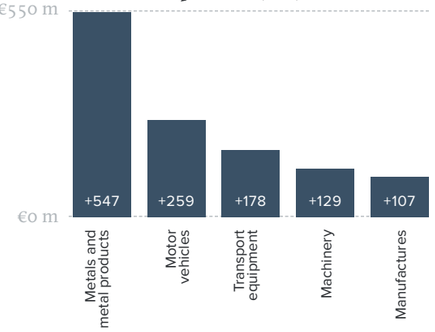
Macro-economic changes in Poland due to TTIP (%)



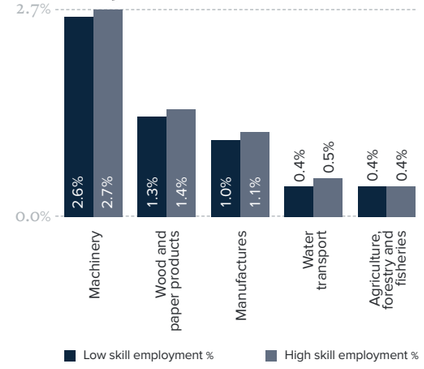
Changes in Polish production for top sectors (%)



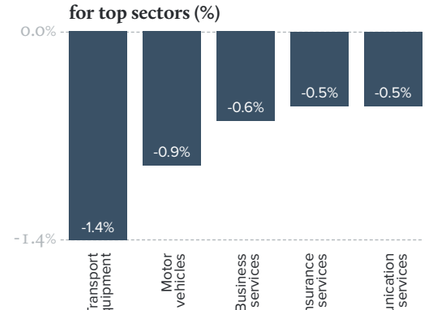
Changes in Polish exports to the US for top sectors (€ m)



Polish employment effects for top sectors (%)



Changes in Polish consumer prices for top sectors (%)



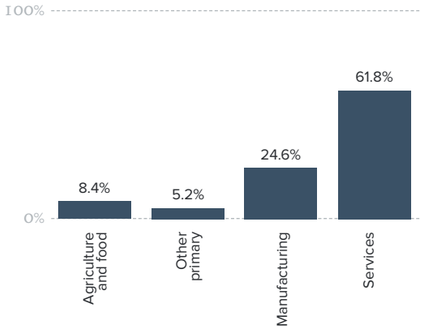
For Poland, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- The machinery, wood products, and manufacures sectors are expected to grow most, but also agriculture, forestry and fisheries and the other primary sector are expected to grow (and see wage increases). The electrical machinery sector may decline;
- TTIP could facilitate a significant increase in production of machinery (+3.2 percent). Exports are expected to increase most for the metals and metal products sector (+€547 m);
- For Polish firms, the price for transport equipment could go down by 1.4 percent because of TTIP. For consumers, the price of an average car is expected to decrease by 0.9 percent.

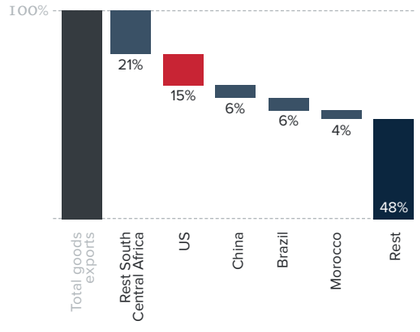
Portugal and the US – The current situation

Portugal is predominantly a services economy, but it also has a sizeable manufacturing sector. Slightly over 50.000 Portuguese jobs come from US controlled firms active in Portugal. The US is the 2nd main (extra-EU) goods export destination (15 percent of goods exports) and main (extra-EU) services export destination (24 percent) for Portugal. The main export sectors for Portugal to the US are air transport, other transport services, and petrochemicals.

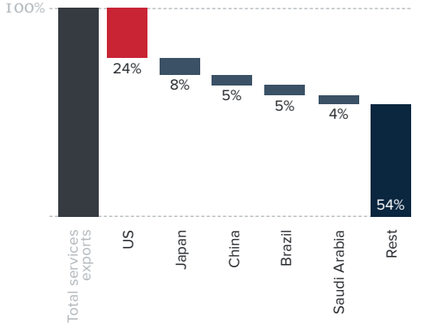
Structure of the Portuguese economy (%)



Total (extra-EU) Portuguese goods exports (%)



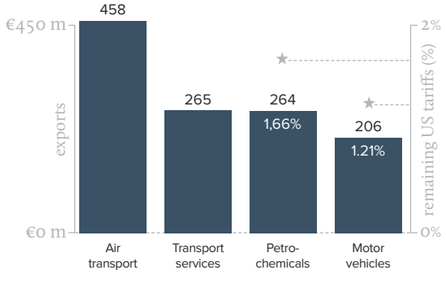
Total (extra-EU) Portuguese services exports (%)



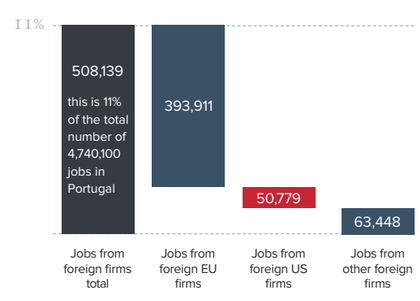
Investments between Portugal and the US (€ bn)

Year	Investments from the US to Portugal	Investments from Portugal to the US
2009	2.1	0.1
2010	2.1	0.2
2011	1.8	0.3
2012	1.7	0.3

Top Portuguese export sectors to US (€ m) and remaining US tariffs (%)



Jobs in Portugal from foreign controlled firms

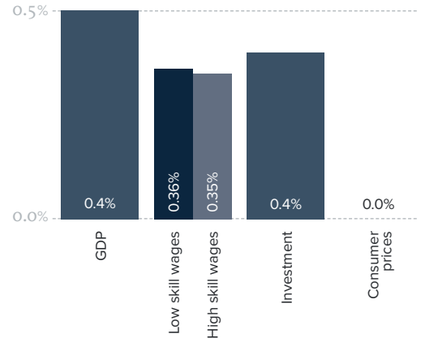


Portugal and TTIP – Expected effects

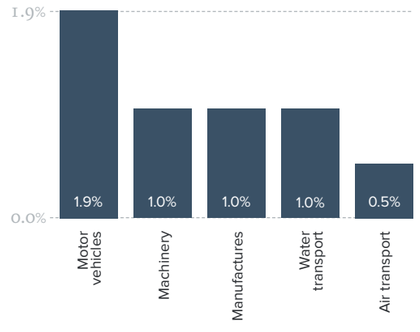
Economic relations with the US are important for Portugal, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and more investments.

GDP is expected to increase permanently by 0.4 percent, exports to the US are expected to increase by 26 percent and consumer prices will not change.

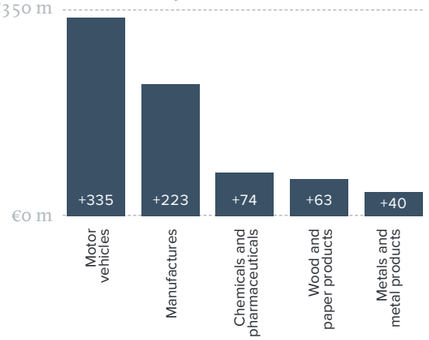
Macro-economic changes in Portugal due to TTIP (%)



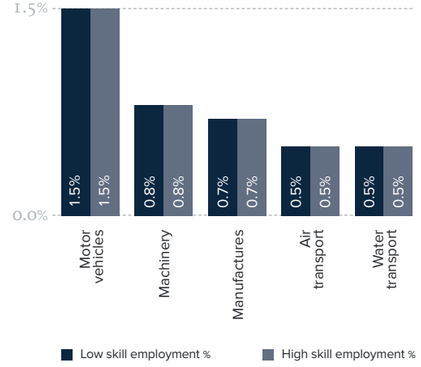
Changes in Portuguese production for top sectors (%)



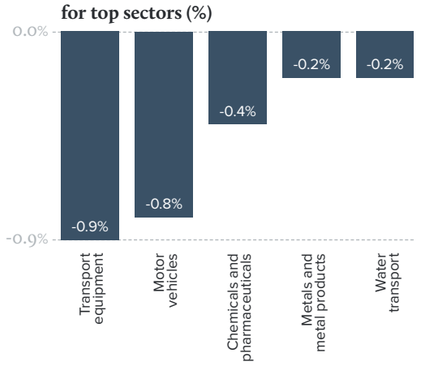
Changes in Portuguese exports to the US for top sectors (€ m)



Portuguese employment effects for top sectors (%)



Changes in Portuguese consumer prices for top sectors (%)



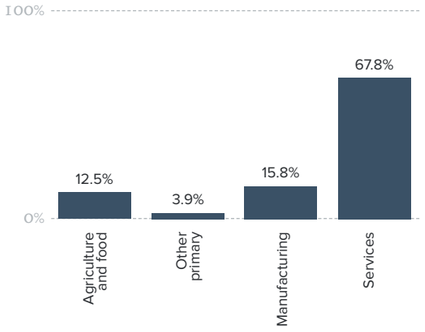
For Portugal, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- The motor vehicles, machinery, and manufactures sectors are expected to grow most, but electrical machinery production may decline;
- TTIP could facilitate an increase in production and export of motor vehicles by firms in Portugal (+1.9 percent, +€335 m). Exports could increase for manufactures as well (+€223 m);
- In Portugal, the prices for an average car and transport equipment could go down by 0.8 percent and 0.9 percent respectively because of TTIP.

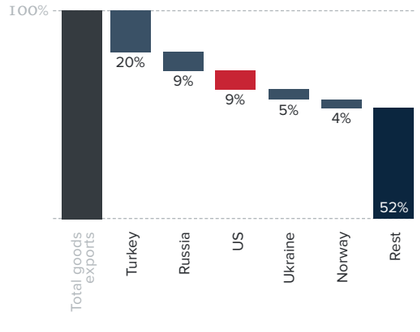
Romania and the US – The current situation

Romania is predominantly a services economy. Around 162.000 jobs in Romania come from US controlled firms active in Romania. The US is the 3rd main (extra-EU) goods export destination (9 percent of goods exports, after Turkey with 20 percent) and the main services export destination (23 percent of services exports) for Romania. The main export sectors for Romania to the US are machinery, chemicals and pharmaceuticals, business and ICT services, and iron and steel.

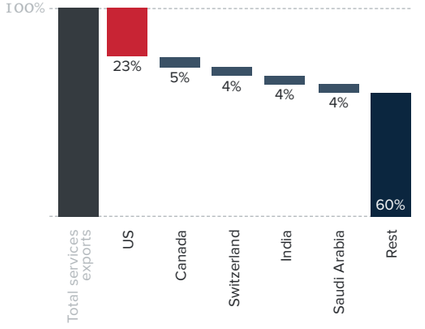
Structure of the Romanian economy (%)



Total (extra-EU) Romanian goods exports (%)



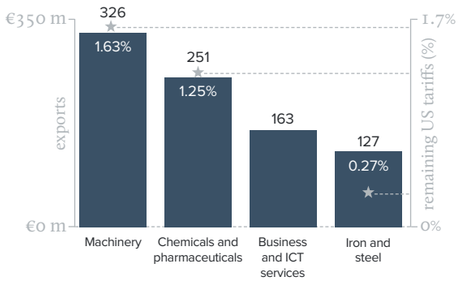
Total (extra-EU) Romanian services exports (%)



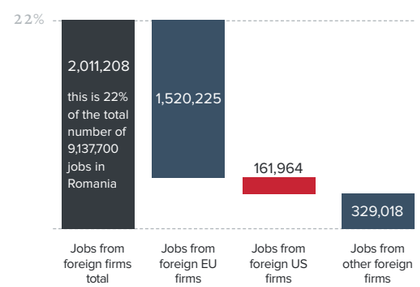
Investments between Romania and the US (€ bn)

Year	Investments from the US to Romania	Investments from Romania to the US
2009	1.2	N/A
2010	1.2	-43 m
2011	1.0	16 m
2012	1.5	26 m

Top Romanian export sectors to US (€ m) and remaining US tariffs (%)



Jobs in Romania from foreign controlled firms

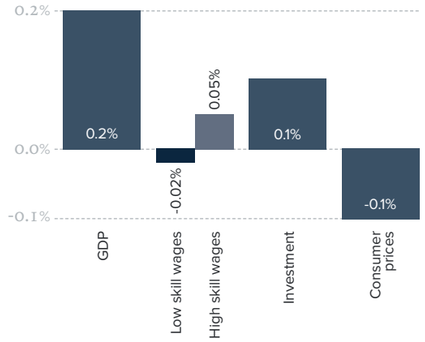


Romania and TTIP – Expected effects

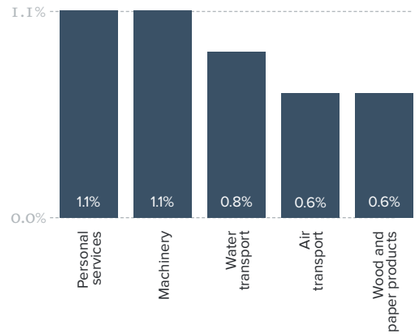
Romania has a strong economic relationship with the US, and TTIP would contribute to additional income, higher wages for high-skilled workers, more investments and lower consumer prices.

GDP is expected to increase permanently by 0.2 percent, exports to the US are expected to increase by 18 percent and consumer prices will go down marginally by 0.1 percent.

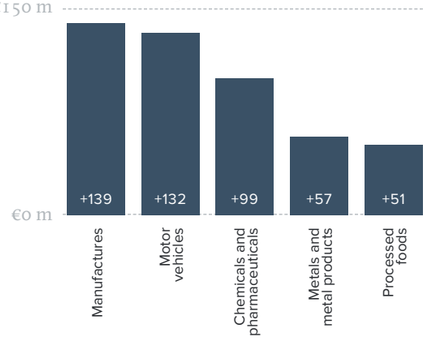
Macro-economic changes in Romania due to TTIP (%)



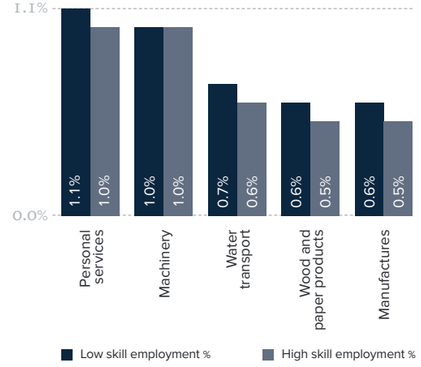
Changes in Romanian production for top sectors (%)



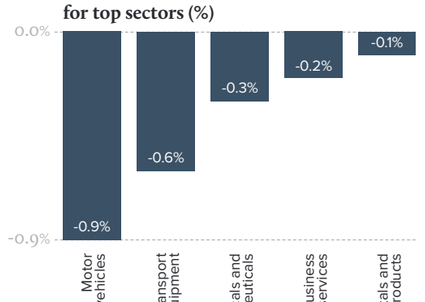
Changes in Romanian exports to the US for top sectors (€ m)



Romanian employment effects for top sectors (%)



Changes in Romanian consumer prices for top sectors (%)



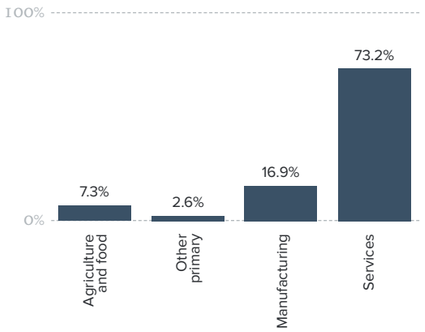
For Romania, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- The machinery, personal services and water transport sectors are expected to grow most, but electrical machinery and motor vehicles may decline;
- TTIP could facilitate a significant increase in production of machinery (+1.1 percent). Most significant export expansions are expected in manufactures (+€139 m);
- For Romanian citizens the price for an average car could go down by 0.9 percent because of TTIP, and the prices for transport equipment by 0.6 percent.

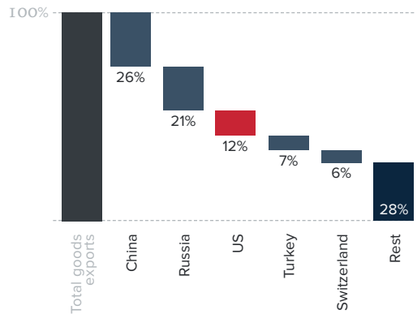
Slovakia and the US – The current situation

Slovakia is predominantly a services economy but with significant value added in manufacturing as well. Just under 44.000 Slovakian jobs come from US controlled firms active in Slovakia. The US is the 3rd most important (extra-EU) goods export destination (12 percent of goods exports, after China with 26 percent) and the main (extra-EU) services export destination (18 percent of services exports) for Slovakia. The main export sectors for Slovakia to the US are motor vehicles, machinery, air transport services, and iron and steel.

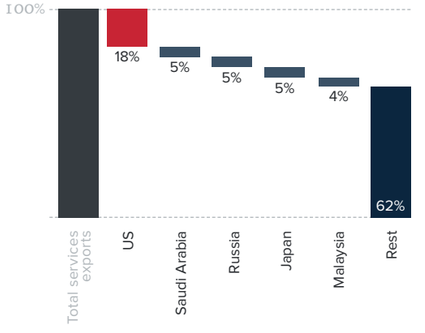
Structure of the Slovakian economy (%)



Total (extra-EU) Slovakian goods exports (%)



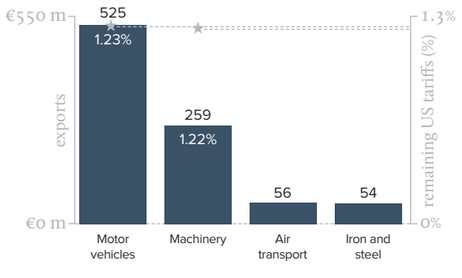
Total (extra-EU) Slovakian services exports (%)



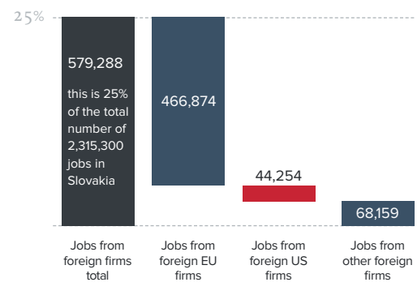
Investments between Slovakia and the US (€ m)

Year	Investments from the US to Slovakia	Investments from Slovakia to the US
2009	N/A	-2
2010	N/A	3
2011	N/A	3
2012	809	14

Top Slovakian export sectors to US (€ m) and remaining US tariffs (%)



Jobs in Slovakia from foreign controlled firms

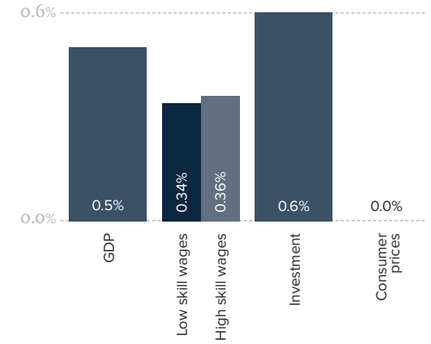


Slovakia and TTIP – Expected effects

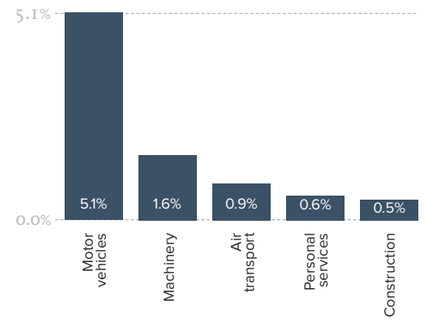
Economic relations with the US are important for Slovakia, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and more investments.

GDP is expected to increase permanently by 0.5 percent, and exports to the US are expected to increase by 116 percent (the largest increase of all EU Member States). Consumer prices remain the same.

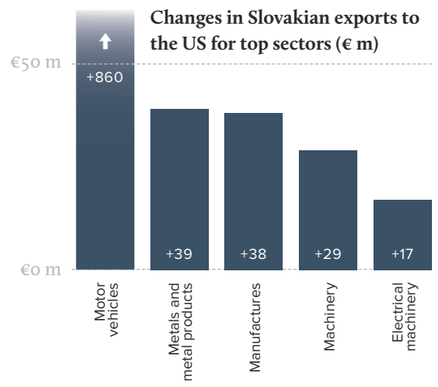
Macro-economic changes in Slovakia due to TTIP (%)



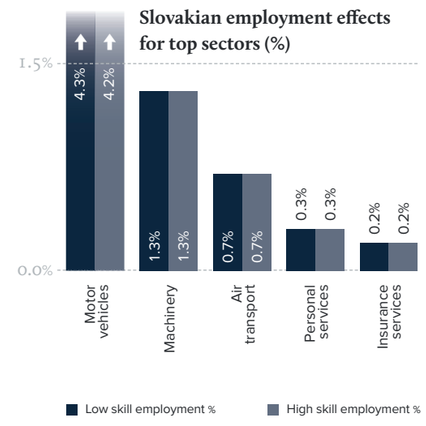
Changes in Slovakian production for top sectors (%)



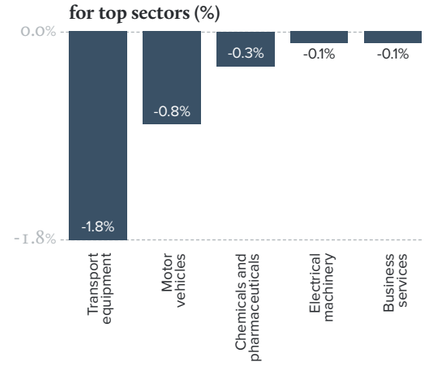
Changes in Slovakian exports to the US for top sectors (€ m)



Slovakian employment effects for top sectors (%)



Changes in Slovakian consumer prices for top sectors (%)



For Slovakia, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- The motor vehicles sector, but also the machinery, air transport, personal services and construction sectors are expected to grow, but electrical machinery may decline;
- TTIP could facilitate a significant increase in production of car parts and components by firms in Slovakia (+5.1 percent) and exports in this sector are expected to increase by €860 m;
- For Slovakians, prices would be lower for transport equipment (-1.8 percent) and cars (-0.8 percent).

INSERT 7: TTIP AND FOOD SAFETY

By Dr. Siemen van Berkum[9]

"Given the differences between the EU and the US approaches to food and animal safety issues, it is important that negotiating parties on both sides state clearly for the public that regulatory coherence would take place within the regulatory frameworks set in the EU and US, and would not lead to a weakening in standards of consumer protection."

[9] Dr. Siemen van Berkum is a senior researcher/project manager for International Trade and Markets in the International Policy research unit of LEI Wageningen UR.

Summary

EU consumers are concerned that mutual recognition of food standards may erode existing regulations in the EU, such as the ban on the use of growth promoters in meat production, GM food labelling and animal welfare standards. Negotiators have repeatedly stated that TTIP is about making regulations more compatible, rather than aiming for the lowest common denominator. Meanwhile, consumers stand to benefit from TTIP in terms of extra disposable income as increased market access should result in lower prices. Consumers could also benefit from a greater variety of products and services to choose from. Given the differences between the EU and the US approaches to food and animal safety issues, it is important that negotiating parties on both sides state clearly for the public that regulatory coherence would take place within the regulatory frameworks set in the EU and US, and would not lead to a weakening in standards of consumer protection.

TTIP aims at removing barriers to transatlantic trade. When it comes to the effects of TTIP on consumers in the context of the elimination of these barriers, it is important to state clearly that regulatory cooperation would take place within the existing regulatory frameworks set in the EU and the US. As a consequence, an ambitious TTIP agreement would not lead to any weakening of standards or consumer protections (and is expected to follow through on these statements in the final text).

Economic consumer gains

The welfare effects of TTIP are expected to be positive. Import tariff reductions and greater alignment of regulations and standards will reduce the prices of imports and, through increased competition, of domestic goods, and hence increase consumers' purchasing power. In addition to the economic gains spelled out in the CEPR study regarding positive total welfare effects, consumers will have greater choice on how to spend their income because increased competition is expected to result in a greater variety of products and services. In general consumers would also spend less on goods and services, because of lower production costs. For example, EU consumers are likely to benefit from lower prices for motor vehicles, and similar gains can be expected for chemicals (including both cosmetics and pharmaceuticals), electrical and electronic products, engineering, medical devices and textiles. More specifically, with regard to the benefits of lower prices and a wider variety of traded food products, European consumers may benefit from increased market access and imports of US dairy products, fruit and vegetables, and white meat in particular. [73]

Gains from regulatory cooperation can be twofold. First, to pursue, as appropriate, harmonised, equivalent or compatible solutions will reduce transaction costs to the potential benefit of consumers in terms of lower prices for imported goods. Second, regulatory cooperation allows regulatory agencies on both sides of the Atlantic to develop common traceability and alert systems for food products. This may actually improve the ability of regulators to protect consumers, where such systems facilitate the rapid exchange of information on animal and ingredient identification (traceability system) and sources of food contamination (alert system). Common traceability and alert systems can promote both trade and food safety by enhancing transparency

in terms of product qualities and production/processing methods. Handled correctly, regulatory cooperation therefore can add to food safety in both regions alongside more international trade.

While there are potential consumer benefits, including in terms of regulatory protection of consumers, EU consumers and other NGOs are nonetheless worried that TTIP may pose a number of risks to food consumption.[74] The fear is that TTIP's regulatory framework could lead to a system of mutual recognition of food standards between partners, which could lead to a weakening of food safety standards in the EU and a "race to the bottom". This claim warrants further analysis. First, this insert will examine the notion of differences in regulatory approaches – specifically in the field of food safety – followed by three examples of concerns that are present in the general TTIP and food safety debate, and finally this insert will observe what will be the likely outcomes from TTIP with regard to these cases.

Differences in regulations pertaining to food safety between the EU and the US

Before looking at differences in regulations pertaining to food safety, it is important to explain the concept of the "precautionary principle". The precautionary principle entails that in the absence of a clear understanding that something is safe, caution should be exercised. It is commonly thought that the EU applies the precautionary principle and the US does not. However, as Wiener shows, the precautionary principle is used on both sides of the Atlantic, not just on the EU-side.[75] What is more, one cannot say that one nation is "more precautionary" than the other; just that the precautionary principle is applied in different sectors with varying degrees of force by the two respective partners.

In the realm of agro-food, the concept of food safety in the US is relatively more based on "reasonable certainty of no harm" and not on the "precautionary principle" as is relatively more the case in the EU. The US requires "scientific evidence" to justify restrictions on the use of a particular technique. The difference in approaches shows variance in the perception of risk that reflect differences in cultural and institutional frameworks on both sides of the Atlantic. Three examples that illustrate the current debate on food safety are discussed below.

Growth promotors

Following increasing consumer concerns over the safety of artificial hormone use in cattle raised in the EU (following a series of hormone scandals in Italy in the late 1970s), the European Commission excluded the use of all hormone growth promoters in the early 1980s in the EU. Since 1988, the EU also banned the imports of meat produced with growth hormones for health and safety reasons. Consequently, the EU does not accept US beef that has been treated with growth-promoting hormones, effectively closing the EU as a destination for most US beef exports (though a market has developed for high end, grass fed beef from the US).

An estimated 60 to 80 percent of US pigs are fed with ractopamine, a feed additive that promotes feed efficiency. Ractopamine is, however, not allowed in the EU based on the 2009 EFSA Opinion on safety evaluation of the drug.[76] The EFSA report concluded that there was insufficient data available to derive a safe residue level for human consumption. Besides the EU, large pork producing countries such as China and Taiwan and more than 100 other countries have (long) banned its use in livestock farming because of concerns about the effect of ractopamine residues in meat on human health.

Animal welfare

Animal welfare groups have also expressed concern towards TTIP. They fear that regulatory cooperation will be used to resist the strengthening of EU standards. However, the latter issue is complex, in particular because US legislation is not always less animal-friendly than in the EU, and differs across US states with Californian legislation being more animal-friendly than legislation adopted in most EU Member States.[80]

Genetically modified food products

Another concern relates to genetically modified (GM) foods. US authorities, companies and (most) farmers say that genetically modified products are proven safe by scientific studies, but consumers – according to a Eurobarometer survey – in the EU maintain the belief that GM foods might be unsafe or even harmful, and are not in favour of genetically modified food.[77] In addition to the worries about the consequences of GMOs on human health, the impact of GMOs on the environment is a concern, particularly their effect on biodiversity and existing species. The Eurobarometer survey reveals an overall strong suspicion of GM foods among the European public. The introduction of GM plants, food and animal feed is permitted in the EU but restricted since the early 1990s and subject to a risk assessment carried out by EFSA. European consumers have shown a preference for the labelling of products which contain GMOs, so that they can make an informed choice. Labelling also allows for traceability. The labelling requirement is set in EU regulations, whereas in the US it is not.[78] US authorities have always rejected GMO labelling and, in particular, their inclusion in trade agreements.

Likely outcomes for food safety and consumer protection from TTIP

EU and US citizens have different perceptions of food safety risks. This has led to different regulatory systems, using sometimes different means to protect consumers, although both can be effective. In response to consumer worries about existing EU standards, the European Commission underlines that TTIP will not be a race to the bottom, but rather offers an opportunity to make regulations more compatible which *"does not mean going for the lowest common denominator, but rather seeing where we diverge unnecessarily"*.[81]

In its position papers and textual proposals, the EU makes clear that TTIP will not change existing food safety rules. This message implies that the EU will keep its restrictions on hormones or growth promoters in livestock farming just as the US will keep its rules on microbial contaminants. This means that in areas where differences are deliberate in reflecting different views on safety, those differences in regulation will remain. Moreover, TTIP will not change the EU's GMO authorisation process and will not affect EU animal welfare.[82] During the February 2015 negotiation round, EU and US negotiators confirmed that *"any work in the regulatory area would not do anything that would undermine domestic measures aimed at public policy objectives such as consumer and environmental protections"*.[83] At the same time, both sides pointed out their willingness to examine pragmatically whether regulation can be enhanced and carried out in a more coordinated fashion in relevant areas. Each side will keep the right to regulate environmental, safety and health issues at the level each side considers appropriate.

The regulatory cooperation chapter in TTIP is not likely to lead to lowering of EU food standards or levels of consumer protection. It has been repeatedly stated that such an outcome is not and could not be considered. It is not the goal of the negotiations. Nor can the EU and US domestic regulatory systems be ignored – processes including notification and consultation must be adhered to. In other words, regulatory cooperation cannot just be negotiated in a trade agreement outside existing domestic regulatory frameworks. Apart from the information available on what will not be discussed, food safety standards cannot even be discussed in any case; these are subject to the sovereign right of the EU Member States and US authorities to change or adopt. Given the differences between the US and the EU concerning food and animal safety issues, it will be an important and challenging task for negotiators to identify areas of compatibility between the EU and the US. In this sense, TTIP will likely lead to the establishment of processes for facilitating *future* cooperation, rather than major changes in existing regulatory objectives.

THE CURRENT SITUATION AND EXPECTED TTIP EFFECTS FOR

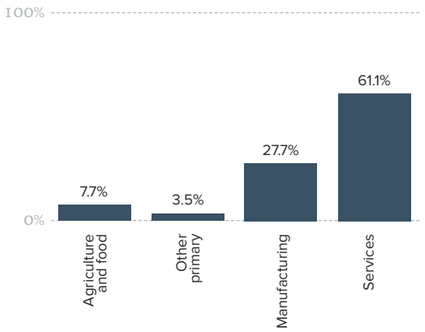
SLOVENIA
SPAIN
SWEDEN
UNITED KINGDOM

TTIP AND THE EU MEMBER STATES

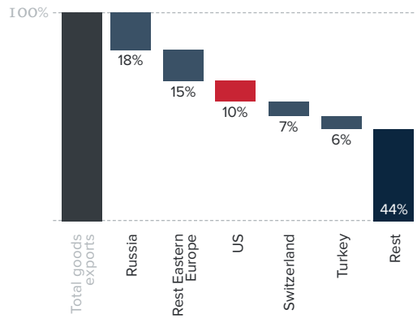
Slovenia and the US – The current situation

Slovenia is a services economy with a significant manufacturing sector as well. Around 8.000 Slovenian jobs come from US controlled firms active in Slovenia. The US is the 2nd largest (extra-EU) goods export destination (10 percent of goods exports) and 2nd largest (extra-EU) services export destination (10 percent of services exports) for Slovenia. The main export sectors for Slovenia to the US are machinery, chemicals and pharmaceuticals, iron and steel, and business and ICT services.

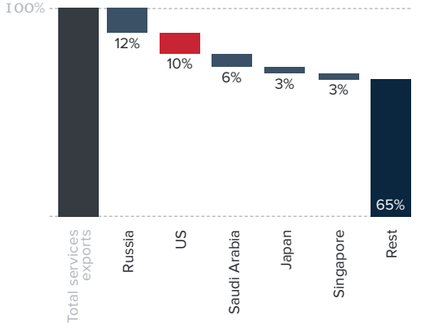
Structure of the Slovenian economy (%)



Total (extra-EU) Slovenian goods exports (%)



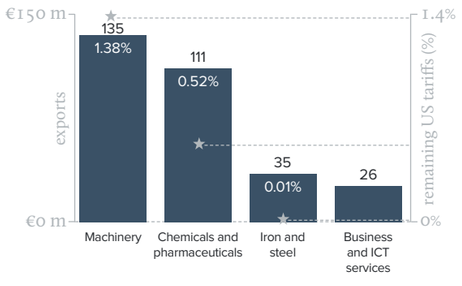
Total (extra-EU) Slovenian services exports (%)



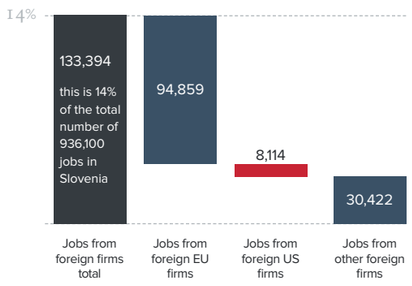
Investments between Slovenia and the US (€ m)

Year	Investments from the US to Slovenia	Investments from Slovenia to the US
2009	N/A	N/A
2010	N/A	N/A
2011	N/A	N/A
2012	N/A	15

Top Slovenian export sectors to US (€ m) and remaining US tariffs (%)



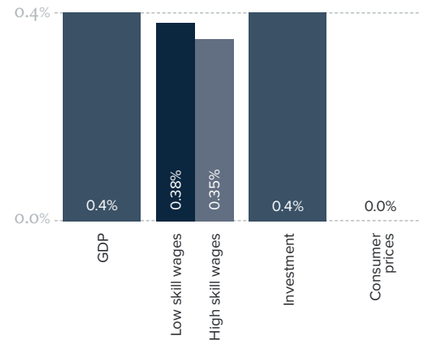
Jobs in Slovenia from foreign controlled firms



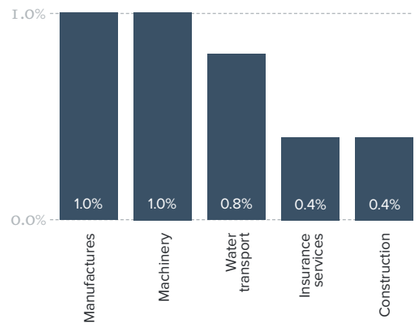
Slovenia and TTIP – Expected effects

Slovenia does not have a very strong economic relationship with the US. Nonetheless, TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and more investments. GDP and investments are each expected to increase permanently by 0.4 percent, exports to the US are expected to increase by 19 percent while consumer prices will remain the same.

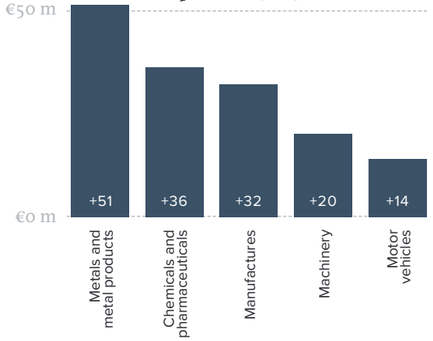
Macro-economic changes in Slovenia due to TTIP (%)



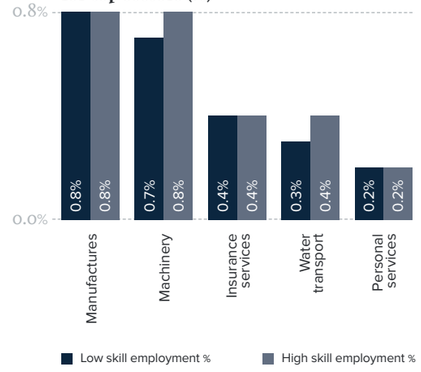
Changes in Slovenian production for top sectors (%)



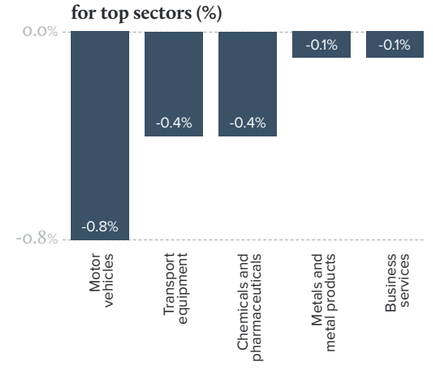
Changes in Slovenian exports to the US for top sectors (€ m)



Slovenian employment effects for top sectors (%)



Changes in Slovenian consumer prices for top sectors (%)



For Slovenia, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

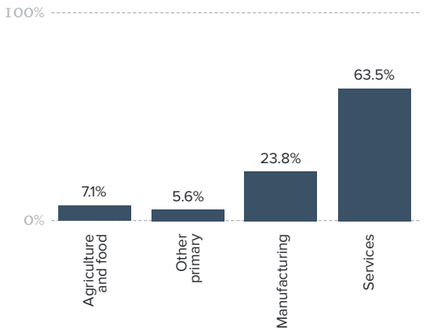
- The manufactures and machinery sectors are expected to grow most, but electrical machinery and motor vehicle production may decline;
- TTIP could facilitate a significant increase in production of manufactures (+1.0 percent) and machinery (+1.0 percent), and exports in especially metals and metal products (+€51 m) are expected to increase;
- For Slovenians, the price for an average car could go down by 0.8 percent because of TTIP.

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

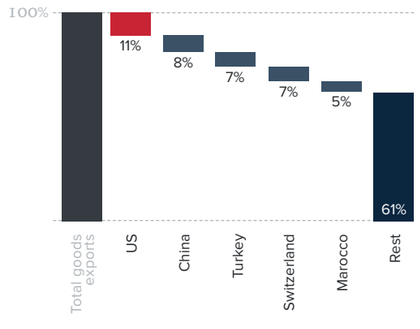
Spain and the US – The current situation

Spain is a services economy with a significant manufacturing sector as well. Around 264.000 Spanish jobs come from US controlled firms active in Spain. The US is the main (extra-EU) goods export destination (11 percent of goods exports) and services export destination (20 percent of services exports) for Spain. The main export sectors for Spain to the US are business and ICT services, chemicals and pharmaceuticals, machinery and petrochemicals.

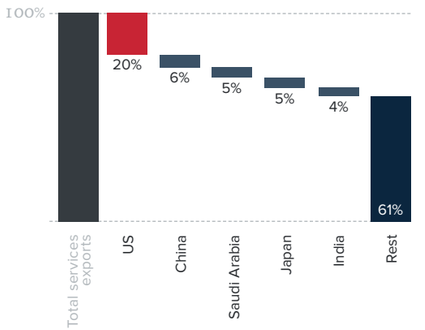
Structure of the Spanish economy (%)



Total (extra-EU) Spanish goods exports (%)



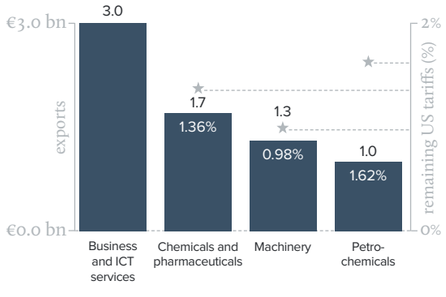
Total (extra-EU) Spanish services exports (%)



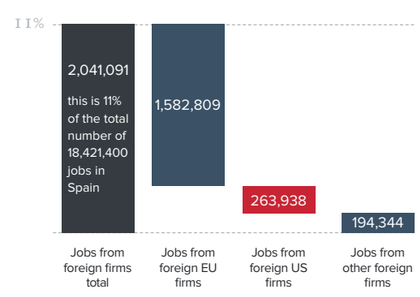
Investments between Spain and the US (€ bn)

Year	Investments from the US to Spain	Investments from Spain to the US
2009	43.6	29.2
2010	41.1	33.8
2011	33.9	34.2
2012	24.2	38.2

Top Spanish export sectors to US (€ bn) and remaining US tariffs (%)



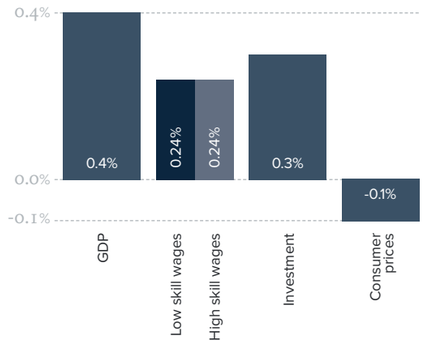
Jobs in Spain from foreign controlled firms



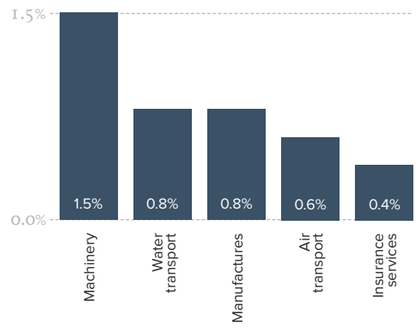
Spain and TTIP – Expected effects

Spain has a strong economic relationship with the US, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, more investments and lower prices. GDP is expected to increase permanently by 0.4 percent, exports to the US are expected to increase by 13 percent and consumer prices will go down marginally by 0.1 percent.

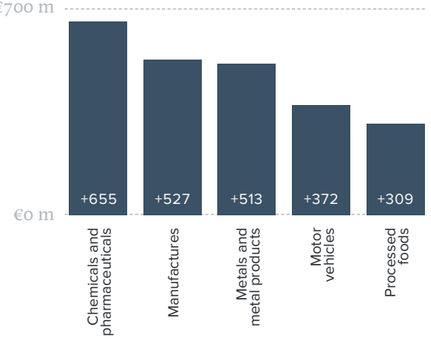
Macro-economic changes in Spain due to TTIP (%)



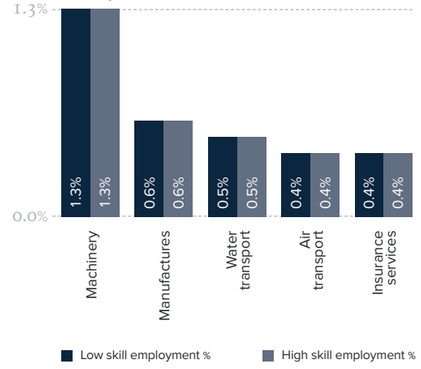
Changes in Spanish production for top sectors (%)



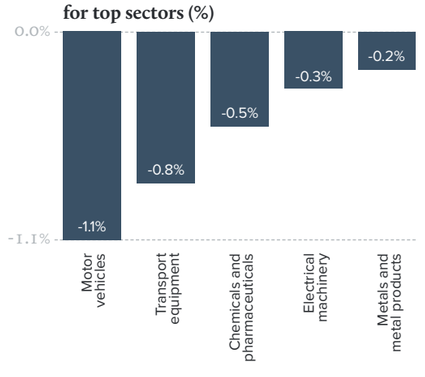
Changes in Spanish exports to the US for top sectors (€ m)



Spanish employment effects for top sectors (%)



Changes in Spanish consumer prices for top sectors (%)



For Spain, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

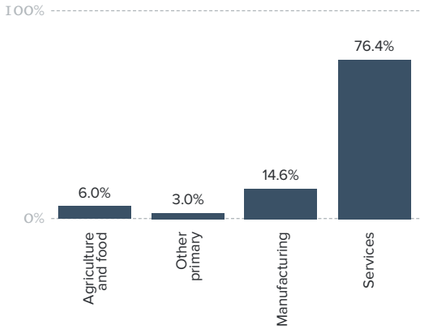
- The machinery, water transport, and manufactures sectors are expected to grow most, but electrical machinery production may decline;
- TTIP could facilitate a significant increase in the production of machinery (+1.5 percent). Exports in chemicals and pharmaceuticals are expected to rise by €655 m;
- For Spanish consumers, the price for an average car could go down by 1.1 percent because of TTIP and the price for transport equipment by 0.8 percent.

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

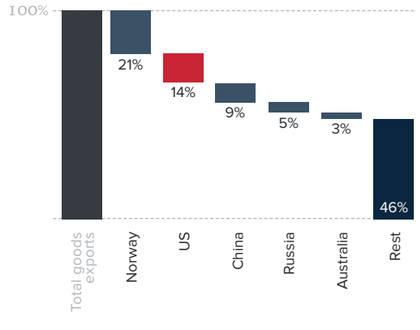
Sweden and the US – The current situation

Sweden is predominantly a services economy. Around 135.000 Swedish jobs come from US controlled firms active in Sweden. The US is the 2nd main (extra-EU) goods export destination (14 percent of goods exports, after Norway with 21 percent) and 2nd main (extra-EU) services export destination (15 percent of services exports, after Norway with 26 percent) for Sweden. The main export sectors for Sweden to the US are machinery, chemicals and pharmaceuticals, and business and ICT services.

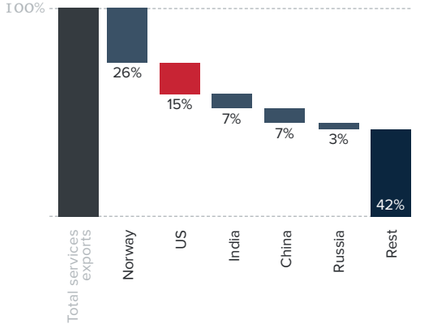
Structure of the Swedish economy (%)



Total (extra-EU) Swedish goods exports (%)



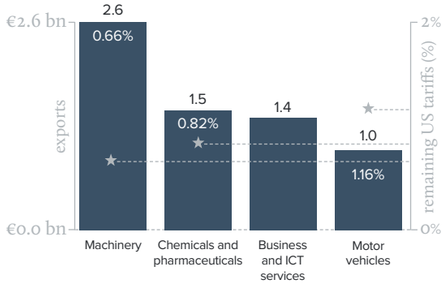
Total (extra-EU) Swedish services exports (%)



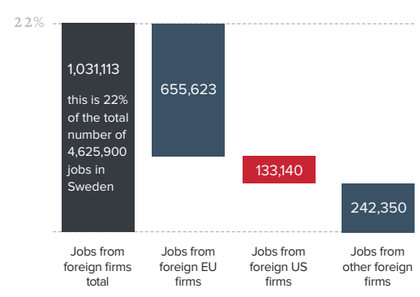
Investments between Sweden and the US (€ bn)

Year	Investments from the US to Sweden	Investments from Sweden to the US
2009	27.5	21.6
2010	18.3	30.4
2011	25.0	31.1
2012	27.9	35.5

Top Swedish export sectors to US (€ bn) and remaining US tariffs (%)



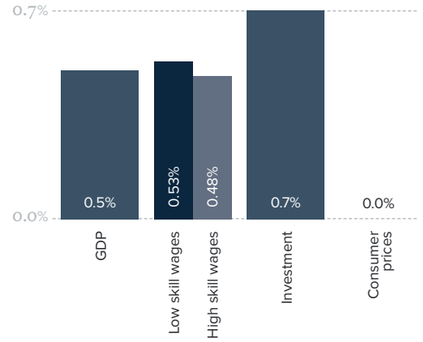
Jobs in Sweden from foreign controlled firms



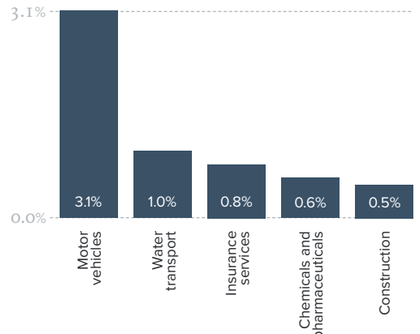
Sweden and TTIP – Expected effects

Sweden has a strong economic relationship with the US, and TTIP would contribute to additional income, higher wages for both low- and high-skilled workers, and more investments. GDP is expected to increase permanently by 0.5 percent, exports to the US are expected to increase by 48 percent and consumer prices will not change.

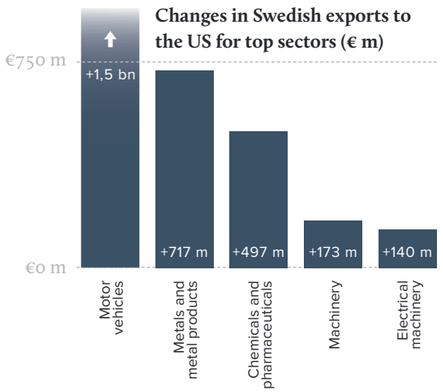
Macro-economic changes in Sweden due to TTIP (%)



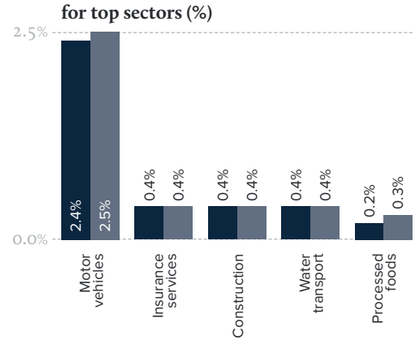
Changes in Swedish production for top sectors (%)



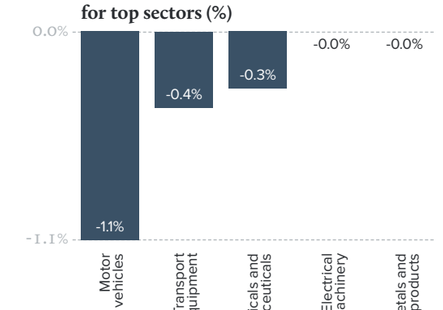
Changes in Swedish exports to the US for top sectors (€ m)



Swedish employment effects for top sectors (%)



Changes in Swedish consumer prices for top sectors (%)



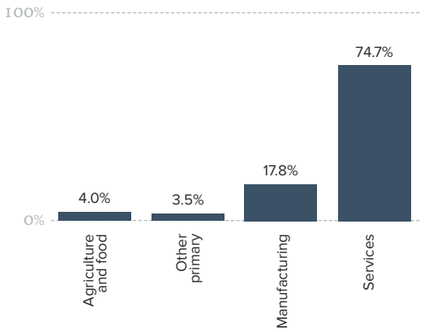
For Sweden, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- The motor vehicles, water transport, and insurance services sectors are expected to grow most, but electrical machinery production may decline;
- TTIP could facilitate a significant increase in production of car parts and components by firms in Sweden (+3.1 percent). Exports are poised to increase most for motor vehicles (+€1.5 bn);
- For Swedes the price for an average car could go down by 1.1 percent because of TTIP.

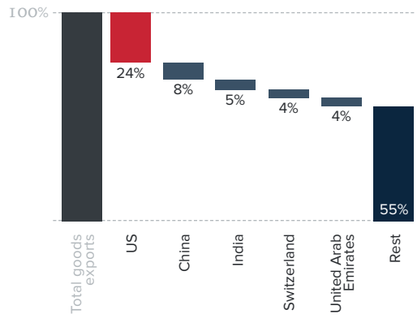
United Kingdom and the US – The current situation

The UK is predominantly a services economy. 1.700.000 jobs in the UK come from US controlled firms active in the UK. The US is the main (extra-EU) goods export destination (24 percent of goods exports) and services export destination (34 percent of services exports) for the UK. The main export sectors for the UK to the US are financial services, chemicals and pharmaceuticals, machinery, and business and ICT services.

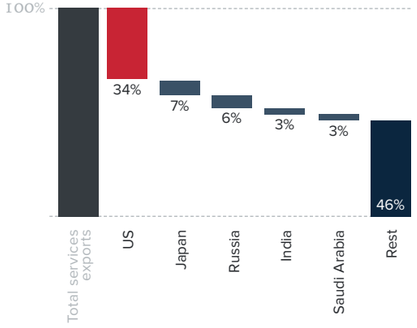
Structure of the UK economy (%)



Total (extra-EU) UK goods exports (%)



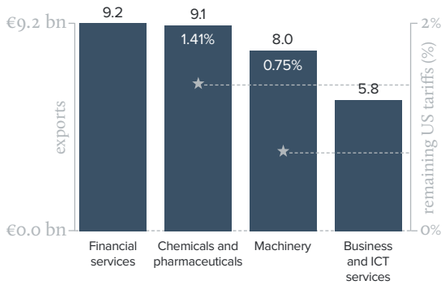
Total (extra-EU) UK services exports (%)



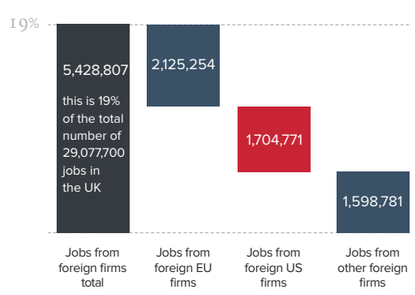
Investments between UK and the US (€ bn)

Year	Investments from the US to UK	Investments from UK to the US
2009	370.5	310.1
2010	393.5	314.3
2011	362.8	333.7
2012	433.4	382.3

Top UK export sectors to US (€ bn) and remaining US tariffs (%)



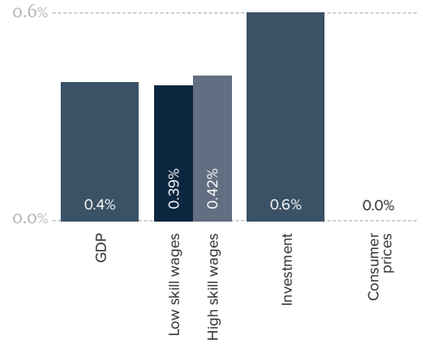
Jobs in UK from foreign controlled firms



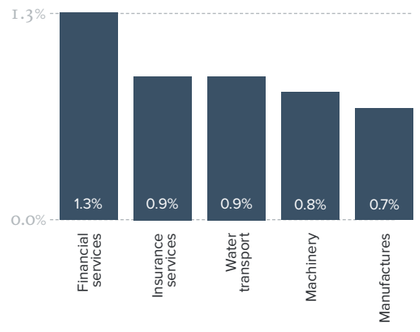
United Kingdom and TTIP – Expected effects

The UK has a very strong economic relationship with the US, and TTIP would contribute significantly to additional income, higher wages for both low- and high-skilled workers, and more investments. GDP is expected to increase permanently by 0.4 percent, exports to the US are expected to increase by 18 percent while consumer prices will remain the same.

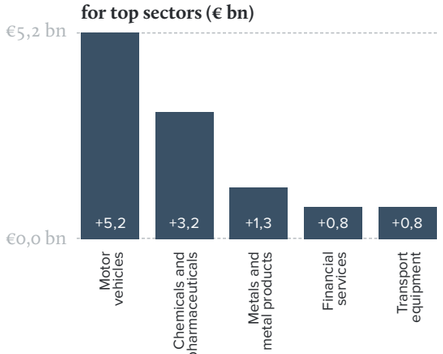
Macro-economic changes in UK due to TTIP (%)



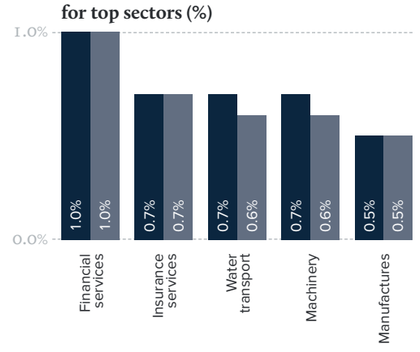
Changes in UK production for top sectors (%)



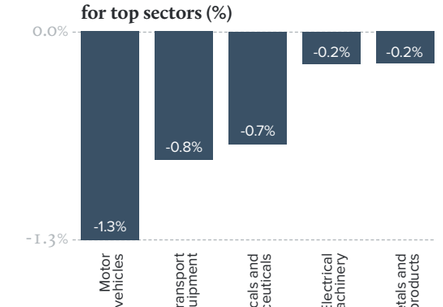
Changes in UK exports to the US for top sectors (€ bn)



UK employment effects for top sectors (%)



Changes in UK consumer prices for top sectors (%)



For the UK, by reducing tariff and non-tariff measures in TTIP, without lowering standards:

- The financial services, insurance services, and water transport sectors are expected to grow most, but electrical machinery may decline;
- TTIP could facilitate a significant increase in production of financial services (+1.3 percent) and insurance services (+0.9 percent). The most significant export expansions are expected in motor vehicles (+€5.2 bn), and chemicals and pharmaceuticals (€3.2 bn);
- For UK citizens the price for an average car could go down by 1.3 percent because of TTIP.

These estimates are based on NTB estimates from Ecorys (2009) and an ambitious scenario from CEPR (2013)

INSERT 8: TTIP AND SOCIAL PROTECTION

By Dr. Christopher Hartwell and Mr. Jan Teresiński[10]

"Regulatory cooperation will be focused on measures that directly affect goods and services traded between the EU and US, not on domestic policies (like the minimum wage, unemployment benefits, unemployment protection). These issues will remain the exclusive domain of their respective legal and institutional domestic frameworks."

[10] Dr. Christopher Hartwell is President of CASE Management Board. Mr. Jan Teresiński is a senior researcher at CASE.

Summary

The regulatory cooperation chapter in TTIP may affect socio-economic variables, but it is not expected to lead to the lowering of employees' rights. Regulatory cooperation will be focused on measures that directly affect goods and services traded between the EU and US, not on domestic policies (such as the minimum wage, unemployment benefits, unemployment protection). These issues will remain the exclusive domain of the respective legal and institutional domestic frameworks of the EU and EU Member States and the US. Regulatory cooperation may affect a country's attractiveness to investors and thus affect wages, jobs and growth – however this is an investment induced effect, not a regulatory aspect. Moreover, this effect is likely to be positive because of a lower cost base for EU and US firms. Overall, the traditional free trade (market access) elements of TTIP are likely to have a positive social impact. Economic studies point to rising wages for many low- and high-skilled workers in key sectors, although there is also risk of falling wages in other sectors. Although there will be labour shifts between sectors, they are likely to be less than two percent of any likely labour reallocation due to other factors such as technological progress and domestic policies. For the sake of mitigating short-term pressures arising for EU Member State labour forces, domestic labour and education policies will be important.

TTIP aims at fostering economic growth and job creation in the EU and US via greater trade liberalisation and the alignment of regulatory differences. As with any FTA, it has social implications, which may include income redistribution and labour reallocation between sectors. In the case of TTIP, the regulatory chapter may cause additional effects that go beyond those of a more traditional FTA. Therefore, this insert will also investigate whether TTIP could affect employee rights, and the levels of social protection.

Current issues concerning the social implications of TTIP

A universal concern surrounding all forms of trade liberalisation is that jobs will be "taken away" or that real incomes may diminish due to low-wage competition. In the case of TTIP these issues may arise – since trade agreements have winners and losers – although they are likely to be much less prevalent given the similar standards of living between the EU and the US. Even so, the social impact of TTIP is a matter of serious debate on both sides of the Atlantic. Although policymakers in the EU and the US recognise the important economic benefits of the agreement (i.e. increases in trade, competitiveness, economic growth, and job creation) many valid concerns regarding social protection have been manifested in the public debate.

Perhaps the more important social issue of TTIP relates not to tariff removal, but to non-tariff measures, and in particular regulatory cooperation. This facet of the agreement has been seized upon as potentially creating a "race to the bottom" in labour standards and environmental and safety norms harmonised to the lowest common denominator (as claimed by e.g. Hillary, 2014, and The Greens – European Free Alliance). For example, there is a fear that EU levels of social protection will be lowered through TTIP to US levels. Indeed, American trade unions are not as vehemently opposed to TTIP as they are to other US FTAs, exactly because EU social protection is considered to be of a higher level.

Social protection elements and TTIP

According to the European Commission, the final TTIP agreement will consist of three pillars: market access, regulatory cooperation and rules. It is possible that these components have social implications, but if so through different transmission channels. This section will focus on market access, regulatory cooperation, and rules.

Market access relates to traditional barriers to trade like customs duties. Although tariffs between the EU and the US are already low, because of particular differences (e.g. tariffs on cars) and because some tariff lines are amplified due to trade in parts and components of final products in value chains, there is still scope for further trade liberalisation. Removing tariffs that will facilitate trade can create temporary income redistribution effects and labour shifts between sectors. With tariffs already low, it is believed, however, that the key social challenge (and thus also a key potential for gains) in EU-US trade relations lies in the differences in definitions, norms and regulations which may prevent a better flow of goods and services through so-called behind-the-border measures. The majority of economic gains from TTIP are likely to come from regulatory alignment – EU exports to the US are expected to increase by 28 percent (€ 187 billion), constituting 80 percent of total export growth. US exports to the EU are also expected to increase, by 37 percent (€ 159 billion), accounting for 58 percent of total export growth.[84] Thus, similar to the removal of formal tariff barriers, regulatory cooperation can facilitate trade through lower transaction costs, which in terms of social impact may again result in income gains, income redistribution and labour reallocation. The size effect, however, of the impact of regulatory cooperation on social variables could differ from the traditional (market access) tariff effect.

Regulatory cooperation may yet have another social impact. Reducing regulatory barriers to trade is in many ways envisioned as a process of alignment of regulatory systems between the two trade blocs. It is commonly thought that a reduction in regulatory differences will lead to a reduction in social (or any other kind of) protection in one country and a rise in the other. Some authors argue that in order to bridge regulatory differences, there may be a decrease in the levels of social or consumer protection and food safety in one of the trade blocs, at least in the short-term.[85] This idea is supported by the view of the US trade unions that TTIP would help raise the level of social protection in the US, because an average with the (higher) EU level will be found – implying the EU would "lower" its levels of social protection to a(n) (lower) average with the US. It is not plausible, however, that such an outcome would actually be realised. This is because regulatory cooperation will focus on measures that directly affect goods and services traded between the EU and US, not on domestic policies (e.g. minimum wage, unemployment benefits, unemployment protection). These issues will remain the exclusive domain of the respective legal and institutional domestic frameworks of the EU (its Member States) and the US. To the extent that globalisation and related integration mechanisms put pressure on domestic decisions in these areas, one expects this type of pressure to be more important where there is wide disparity in social norms and incomes. However, the EU and the US in fact have very similar norms, standards and protections – especially in comparison to many other countries in the world.

Finally, the third part of TTIP relates to rules. This part is, among other things, devoted to sustainable development and in particular workers' rights and environmental protection. An ambitious chapter in TTIP on these matters is envisaged by the negotiators.

What are the potential effects of TTIP in terms of social impact?

TTIP is likely to lead to labour and capital shifts between sectors, as well as income redistributions amongst workers of different skills. These effects can be especially significant depending upon the sector in which workers are employed. While these are important to those immediately affected, they are short term effects. The CEPR study finds that, economy-wide, both low- and high-skilled workers can be expected to gain in the long run via wage increases (although the effect will be small – equal to or less than 0.5 percent of the wage rate).[86] Similarly, Ecorys finds that wages for unskilled workers can be expected to rise by between 0.4 percent (US) and 0.8 percent (EU), with similar effects for skilled workers.[87] The rise in wages will occur due to lower tariffs and (especially) reduced regulatory differences, leading to cost savings, scale economies and productivity gains.

Regarding labour reallocation, according to the CEPR study, EU employment in the automotive sector will expand by 1.3 percent for high-skilled and 1.3 percent for low-skilled workers, while employment is expected to contract in electrical machinery (by 7.0 percent) and metal sectors (by 1.6 percent). In the US we also expect a reduction in employment in electrical machinery (by 2.1 percent – the same direction as in the EU) and processed foods (by 1.2 percent). These reflect productivity gains, and one should expect that these changes will lead to a more efficient allocation of the labour force (and of capital investment), because workers will be drawn to sectors able to pay higher wages (as reflected in estimated overall gains in wage levels). This means an increase in productivity. Overall, no more than 0.7 tpercent of the labour force is expected to shift between sectors as a result of TTIP. This should not be a problem for three key reasons. First, over any likely implementation period, this is far outweighed by basic labour market turnover with new entry and retirement from the labour force. Second, with wage increases, labour displacement implies workers moving to areas in the economy where they can earn more and have better opportunities. Studies point to a pull of labour into higher paying sectors, rather than a push because of falling overall labour demand. Third, with its high levels of social protection, the EU is well placed to mitigate a lot of the short-run labour mobility effects. This last point does not mean the EU can ignore such adjustment costs. Rather it means the institutional mechanisms are largely in place to handle them and the EU and its Member States should use them.

As noted above, the key social concern of TTIP relates to the harmonisation of norms and standards. Many believe that labour markets in the EU are characterised by higher levels of regulation (focused on safeguarding security of employment and income) than its US counterpart. It is often said, for example, that the EU has ratified all core labour conventions of the International Labour Organization (ILO), while the US has only ratified two – implying that the EU's levels of social protection are higher than in the US. On the other hand, others argue that the US upholds labour standards in an equivalent yet different (domestic) way. These differential preferences are unlikely to be affected by TTIP. It is highly implausible that the EU will withdraw from its ILO obligations or remove working regulations approved and adopted by the EU Member States.

There also other social concerns related to TTIP implementation as mentioned in the previous section. First, despite the fact that current norms in both transatlantic economies in terms of social and consumer protection and environmental protection are among the world's highest, differences in their approaches to

regulation could result in a lower effective coverage if harmonised. Examples here include personal data protection differences, worker protection, consumer protection in financial markets, and renewable energy regulations.

Even though the abovementioned developments are heavily debated as possible social impacts, we do not expect them to materialise for several reasons.

- First, we need to distinguish carefully between reducing trade barriers and reducing levels of social protection. Those are largely different things and we believe that a reduction in one should not also imply a reduction in the other. For example, labelling mistakes are the cause of over 22 percent of all detentions of products in US Customs.[88] Reducing this barrier does not mean any TTIP trade partner lowers standards or levels of social protection. In the cosmetics chapter, the EU aims to reach an agreement with the US for the Cosmetics Annex on the following: *"[That] both sides could work on further aligning labelling requirements on the basis of the International Nomenclature for Cosmetic Ingredients (INCI system) in particular as regards trivial names [e.g. acceptance of the term aqua as alternative to water]".*[89] Reducing this barrier does not mean any TTIP trade partner lowers standards or levels of social protection.

  This would not affect any cosmetics standard, and thus not affect consumer protection levels, in the EU or US, but it would reduce unnecessary trade barriers in the sector significantly.

- Second, TTIP is not expected to lead to a lowering of workers' rights or levels of protection through the regulatory cooperation pillar, because regulatory cooperation will be focused on measures that affect goods and services traded between the EU and US. TTIP is not to focus on issues that EU Member States and the EU choose – and have the full democratic right – to regulate domestically (e.g. workers' rights, unemployment benefits). These rights form part of their separate legal and institutional domestic frameworks. The consequence of this view is that in the EU one should not be worried about "lowering" the level of EU social protection. At the same time, given expressed civil society concerns and the general risk of special interest lobbying, it would probably help the public perception of the agreement if clear carve-outs for domestic policies (worker safety, public health, etc.) are made explicit.

- Third – though not through the regulatory chapter, but through investment – TTIP could affect societies in terms of wages, jobs and growth. It is an EU Member States' right – through separate legal and institutional domestic frameworks – to decide on issues like workers' rights, unemployment benefits, unemployment protection, social security and so on. This, however, may make an EU Member State more or less attractive to (foreign) investments. While such decisions are not specifically linked to individual trade and investment agreements between the EU and third countries, the level of social protection does have an effect if investments are amplified through TTIP.

- Fourth, in light of evidence from other trade agreements, we believe that these are typical concerns that always arise before trade liberalisation. They are very often based on unsubstantiated claims that are not borne out in the final agreement. In our opinion, careful negotiation and open public disclosure of key negotiating positions and carve-outs for the domestic policy space can help to mitigate many of these concerns. As with the example of the ILO, it is highly unlikely that the EU will forsake its international obligations.

One must also remember that changing the level of social protection in EU Member State labour markets can actually be beneficial for society in the long term. An example is labour market regulation, where a move towards improved labour market flexibility may also lead to better allocation of labour resources and more employment. This, however is an issue that is not regulated through TTIP, but by the domestic EU Member States in their dialogues with social partners and through their own domestic systems.

To conclude, we expect that in the majority TTIP is likely to have a positive social impact. Trade liberalisation in the long run will result in higher wages for both skilled and unskilled workers and higher productivity for the labour force. In our view, labour and employee rights will not decline, assuming that TTIP focuses on measures impacting cross-border transactions. Similarly, high levels of social protection, consumer protection and food safety need not be lowered. TTIP offers the potential for benefits both in economic and in social terms. However, to achieve such a mix of outcomes, it is vital that the EU negotiators take the concerns of different stakeholders into account. They must listen to stakeholders, maintain transparency in the negotiations, and speak on behalf of the EU citizens they represent. It is also vital that labour market and education policies in the EU and its Member States are put to use to address any short-term labour market pressures.

CONCLUSIONS AND RECOMMENDATIONS

This study set out to contribute valuable and new information to the ongoing debate on TTIP in three ways. First, by exploring the economic relationship between individual EU Member States and the US. Second, by disaggregating the potential effects of TTIP on the economies of each EU Member State. Last but not least, the study sought to give in-depth insights into specific TTIP-related issues and concerns relevant to EU citizens.

Based on the analysis provided in Insert 1 (p. 46) which compares the various methodological approaches used by economists to analyse the potential effects of TTIP, and other analyses of economic modelling, we conclude that the chosen Computable General Equilibrium (CGE) model (including assumptions) in this WTI-led study is the best approach available to date – an approach also used in similar but not identical ways by Ecorys, CEPR and CEPII over the past few years. This view is also shared by the European Parliament, outlined in its independent study of the literature on TTIP, and many other economists including, for example, Professor Dani Rodrik, in his blog of May 4th, 2015, "The War of Trade Models." [90]

Main conclusions of the study

Our research confirms the view that TTIP is not a traditional free trade agreement – it goes beyond the classic aims of market access and reducing or eliminating tariffs to include and arguably make its focal point regulatory and rules components. In contrast to traditional free trade agreements the main economic effects in TTIP are expected to come from addressing regulatory differences between the EU and US – by reducing unnecessary overlaps, reducing regulatory burdens, and aligning certification and conformity assessment procedures. In addition, TTIP is envisaged to contain separate chapters dedicated to both sustainable development and SMEs – placing a far greater emphasis on these two horizontal issues than in previous trade agreements. With that in mind, and also taking into account the combined weight of the transatlantic economy which can be further enhanced under an ambitious free trade agreement between the EU and the US, TTIP should be seen in the context of its potential – both as a driver for economic gains, but also as a model for future free trade agreements around the world and as a rules-setter in the global economy.

As in any trade agreement – at sectoral level, especially in the short-run – there are winners and losers. It is imperative that through flanking and mitigating measures those that lose out are helped and supported as much as possible, while potential positive effects are enhanced. For this – both in the EU (and its Member States) and the US ample policy tools are available that can be put to use.

Current economic relations between EU Member States and the US

Some EU countries are already well integrated economically with the US, while others are somewhat less affiliated in terms of trade in goods and services, FDI, and employment with their US counterpart. In analysing the relationships between individual Member States and the US, the following conclusions are drawn:

- For 11 out of the 28 Member States, the US is the most important extra-EU (i.e. excluding intra-EU trade flows) goods export destination (from Ireland 57 percent of goods exports go to the US; from the UK 24 percent and from The Netherlands 22 percent), and for 10 out of 28 EU Member States, the US is the second most important extra-EU goods export destination. This makes the US by far the most important extra-EU export destination for goods.
- For almost two-thirds (18 out of 28) of EU Member States, the US is the most important extra-EU services export destination (for example, in the case of Ireland, some 44 percent of Irish services exports go to the US, for Luxembourg 38 percent and Italy 27 percent); while for another quarter of EU Member States, the US is the second most important extra-EU services export destination. This makes the US by far the most important extra-EU export destination for services.

- The investment relationship between the EU and the US is very strong, but differences in the depth of the investment relation between EU Member States and the US is high, as Table 2 shows. Countries including the The Netherlands, the UK, Germany, Luxembourg and Ireland have very strong investment relationships (both in terms of inward and outward FDI) with the US, while several of the newer Member States, including Estonia, Croatia, Latvia, Lithuania, Slovenia, Romania, and Czech Republic, have (almost) no investment relationship with the US.

- Of all jobs created by foreign-controlled firms in the EU, 63 percent of jobs come from other Member States, 19 percent from US-controlled firms, and 19 percent from all other firms together. **This makes US-controlled firms by far the most important extra-EU job creators in the EU**. As with investments, however, the figures differ somewhat per Member State. In Ireland (40 percent), the UK (31 percent), Italy (23 percent) and France (23 percent) the shares of jobs created by US-controlled firms are the highest. In countries like Croatia (3 percent), Cyprus (4 percent), Latvia (4 percent) and Lithuania (5 percent), shares are much lower.

Macro-economic effects of TTIP

TTIP is expected to lead to significant economic gains for the EU and the various EU Member States – however, these gains:

- **Are not equally spread between EU Member States**: some Member States gain relatively more than others; and
- **Come in different forms**: for example, Austria gains relatively more in terms of export and production increases, while Lithuania gains most from a reduction in consumer prices, and Belgium benefits from a combination of export and production increases, and reduced consumer prices.

In macro-economic terms, TTIP is expected to lead to:

- **Increases in GDP for 27 out of the 28 EU Member States.**
  - Lithuania is expected to see the largest increase, of +1.6 percent;
  - Crisis-hit countries including Greece, Italy, Spain, Portugal and Ireland are expected to see significant economic gains; while
  - Malta is the only EU country forecasted to see a contraction in GDP, of approximately 0.3 percent once TTIP is fully implemented.
- **Significant increases in total exports for all 28 EU Member States**, ranging from +5 percent for Cyprus and +9 percent for Croatia to +48 percent for Sweden, +64 percent for Austria, and +116 percent for Slovakia.
- **Increases in wages in all 28 EU Member States wages for high-skilled workers**, ranging from +0.03 percent in Czech Republic, and +0.1 percent in Romania and Estonia to +1.0 percent in Belgium, +1.3 percent in Lithuania and +1.4 percent in Ireland.
- **Increases in wages for low-skilled workers in 25 out of 28 EU Member States**, ranging from +0.1 percent in Hungary to +1.5 percent in Ireland. In Romania (-0.02 percent), Czech Republic (-0.07 percent) and Estonia (-0.2 percent) wages for low-skilled workers are expected to decrease marginally.
- **A reduction in income inequality in 16 out of 28 EU Member States,** since wages of low-skilled workers are expected to grow faster than wages for high-skilled workers in those countries.

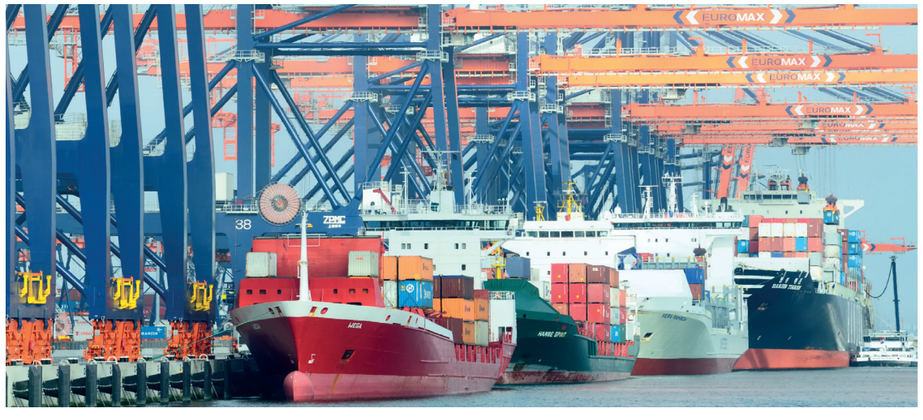


Table 2. Bilateral investment relationship of the top- and bottom-five Member States and the US
(cumulative € billion, 2009-12)

Member States	US investments in EU Member States	Member State	EU Member State investments in US
Top-5 Member States		**Top-5 Member States**	
The Netherlands	1,763.18	UK	1,340.42
UK	1,560.18	The Netherlands	727.34
Luxembourg	961.87	Germany	619.50
Ireland	527.72	France	602.02
Germany	348.59	Luxembourg	348.59
Bottom-5 Member States		**Bottom-5 Member States**	
Estonia	0.13	Romania	-0.00
Croatia	0.13	Croatia	-0.00
Latvia	0.01	Lithuania	-0.01
Lithuania	0.00	Estonia	-0.02
Slovenia	0.00	Czech Republic	-0.04

- **For 20 out of 28 Member States, consumer prices are expected to decrease because of TTIP**. Lithuania (-0.9 percent), Poland (-0.3 percent), and Malta (-0.2 percent) see the most significant drops in prices.
- **In 8 EU countries, consumer prices are expected to remain the same or rise marginally**, notably in Bulgaria (+0.2 percent) and Austria (+0.2 percent).

Expected economic gains from TTIP are the product of:

- Lower prices, since regulatory cooperation and coherence will lead to lower production costs and lower bottlenecks in global value webs. This – in turn – leads to higher levels of competitiveness for EU and US firms, to lower prices and/or higher returns;
- Countries reaping the benefits of specialisation and scale economies from enhanced trade, exploiting "comparative advantage" leading to higher levels of productivity;
- More choice and variety of goods available to consumers.

Our findings also demonstrate a clear link between the level of integration of an EU Member State with the US and the level of economic gains arising from TTIP for that Member State: that is, the deeper the economic relationship of a Member State with the US, the higher the expected gains from TTIP. Countries including Ireland, the UK, Austria and the Netherlands are deeply integrated with the US and are expected to gain significantly from TTIP. For less integrated Member States, such as Croatia or Cyprus, the potential gains from TTIP are relatively lower.

Main conclusions from thematic inserts

The thematic inserts cover various aspects of TTIP in more depth. From these, we can draw some interesting conclusions.

- First, TTIP is not expected to harm the EU Internal Market and could even give it a significant boost. This is expected because:
  - Trade diverted away from the EU Internal Market to the US will be minimal, since manufacturing tariffs are already low and higher agricultural tariff removals can be spread out over time;
  - the EU Internal Market is still fragmented in key TTIP areas, and therefore TTIP cannot erode EU preferences that barely exist (for example, norms of goods, public procurement);
  - significant benefits are expected to accrue from mutual equivalence in regulatory cooperation; it would incentivise regulators to focus on the multilateral dimension of regulations which would help integrate the EU Internal Market (*see Insert 2 on TTIP and the EU Internal Market*).

- Second, for TTIP to deliver significant benefits from regulatory cooperation, it should look not only at harmonisation, but also at developing the concept of "equivalence". In areas where standards between the EU and the US are similar but the regulations that govern them are different, mutual equivalence can lead to a "race to the top" by making regulations in these areas more compatible. In these areas, each domestic regulator's regulations must meet the standards set for equivalence and each regulator must work together with its counterparts to establish the highest standards possible. Crucially, this would be without recourse to amending in any way domestic laws, which would be politically undesirable (*see Insert 2 on TTIP and the EU Internal Market and Insert 3 on TTIP and regulatory cooperation*).

- Third, regulatory cooperation through TTIP could lead to a more integrated and streamlined transatlantic regulatory environment that would contribute to higher levels of safety, increased consumer choice and significantly reduced costs for producers and consumers on both sides of the Atlantic. This would be beneficial for consumers and it could have a significant positive effect on the competitiveness of the EU and US economies in today's globalised world (*Insert 3 on TTIP and regulatory cooperation).*

- Fourth, because TTIP does not seek to legislate and because it aims to enhance regulatory cooperation by avoiding unnecessary regulatory overlap, reduction of administrative burdens, improvements in the quality of regulation, and the safeguarding of consumer rights, TTIP is expected to achieve economic and geopolitical gains while at the same time focusing on and maintaining the highest provisions for social, environmental and consumer protection on both sides of the Atlantic (*Insert 3 TTIP and regulatory cooperation*).

- Fifth, for TTIP to have a global economic and rules-based impact and lead to positive spill-over effects for third countries, TTIP must be designed as open as possible. An 'open' TTIP will have few if any rules of origin provisions, will have open mutual recognition agreement elements (i.e. any firm that meets either the EU or US standard and/or regulations will have access to the transatlantic market, not just EU or US firms), and TTIP (in the future) must be open for other countries to join – creating an incentive for third countries to want to go by the same standards and regulations, setting similar levels of consumer, social and environmental levels of protection as is the case in the EU and US.

- Sixth, from an environmental protection perspective, fears of regulating downwards environmental protections in the EU are unfounded, since the focus for negotiators is on upholding protections while enhancing regulation in compatible areas, and also because TTIP does not seek to legislate. In addition, the risk of a supposed "regulatory chill" on governments' "right to regulate" on environmental issues because of ISDS is low, since the EU negotiating mandate explicitly states that the pursuit of "legitimate public policy objectives" will remain the prerogative of national governments (*Insert 4 TTIP and environmental protection).*

- Seventh, the overall environmental impact of TTIP could prove to be negative, but hinges on the net balance of three effects: additional emissions (i.e. the scale effect) stemming from increased welfare and production, sectoral effects (i.e. the composition effect) from growing and declining sectors, and improvements in efficiency and technology (i.e. the technique effect). While increased trade may lead to rising emissions, this may be partially offset by better regulatory practices and increases in the trade of environmental goods. Moreover, the stronger the environmental protection provisions in TTIP, the larger the possibility for a positive net balance (*Insert 4 TTIP and environmental protection*).

- Eighth, TTIP could deliver particularly important benefits for SMEs, who make up 99 percent of businesses in the EU. Lower regulatory burdens and improved market access through exports matter relatively the most for SMEs who are less able to overcome the many regulatory barriers to trade with the US (according to the European Commission/Ecorys SME survey) than are big companies. For SMEs, administrative and other requirements often pose prohibitive barriers to trade that can be addressed through TTIP, such as tariffs, rules of origin certification, duty-free exemptions for small shipments, and visa flexibility (*Insert 5 TTIP and SMEs*).

- Ninth, there is little empirical evidence to show that ISDS has caused so-called "regulatory chill" on governments at national or EU level, but irrespective of this lack of evidence, it is essential that the right to regulate is upheld by including appropriate safeguards in the final treaty text. This could be achieved, for example, by explicitly detailing states' right to regulate in sensitive areas (*Insert 6 TTIP and investor protection*).

- Tenth, TTIP provides an opportunity to enhance investment protection and the ISDS mechanism in free trade agreements. Modern trade agreements retain ISDS as an option for investors while also more explicitly detailing states' right to regulate in certain legitimate public interest areas, providing more objective arbitrage, and acting against frivolous claims. An enhanced ISDS/ICS in TTIP could therefore set a model for similar instruments around the world. In order to address public concerns relating to ISDS and to ensure that the mechanism is applied appropriately, provisions in TTIP should be clear, unambiguous and well-defined so that a balance between investor protection and public interest is achieved. Interestingly, a lot of these issues are addressed in the most recent EU proposal on ICS (*Insert 6 TTIP and investor protection*).

- Eleventh, for consumers, TTIP could lead to lower prices and a greater variety of products and services to choose from. This is the traditional outcome associated with reducing barriers: lower costs of production and lower consumer prices, and more varieties of goods available across the trading nations (*Insert 7 TTIP and food safety*).

- Twelfth, in the area of food safety, TTIP could be made into an opportunity to make regulations more compatible without affecting the high standards enjoyed by consumers on both sides of the Atlantic. The EU and US have the highest food standards in the world, but their citizens have different perceptions of food safety risks which has led to the creation and

application of different regulatory systems. While recognising that both systems can be effective, TTIP provides an opportunity to identify areas in which standards are similar but the methods to achieve them can be different. In those areas, regulations can be made more compatible to facilitate transatlantic trade (*Insert 7 TTIP and food safety*).

- Thirteenth, **TTIP could have a significant positive social impact**. Wages for many low- and high-skilled workers will rise in key sectors, and wages for low-skilled workers are likely to rise marginally faster than for high-skilled workers in the majority of EU Member States. The regulatory cooperation chapter in TTIP may affect socio-economic variables, but it is not expected to lead to the lowering of employees' rights. In the short-term there are, however, winners and losers, and social policies must be used to flank TTIP (in the short-term). (*Insert 8 TTIP and social protection).*

- Finally, limited labour mobility should be expected between sectors, with some sectors growing while others may contract. However, any such mobility is likely to be limited in comparison to external factors such as technological progress, and independent domestic and EU policies; and will in any case lead to increases in wages and a small decline in wage inequality. Meanwhile, because regulatory cooperation is focused on measures that directly affect goods and services traded between the EU and US, domestic policies will remain the exclusive domain of the respective legal and institutional domestic frameworks (*Insert 8 TTIP and social protection).*

Recommendations

Our findings demonstrate that a transatlantic free trade agreement between the EU and the US is expected to bring economic and social benefits to the EU and to the EU Member States. TTIP is a means to improve the welfare of EU citizens, to enhance the transatlantic relationship which defines the values and standards held by citizens on both sides of the Atlantic, and to help establish the rules and standards of the future global trading environment.

We recommend the following to the EU Member States:

→ Pursue a TTIP agreement that will boost income levels and investment in the EU Member States, increase competitiveness and consumer choice, and resolutely uphold standards. Although the EU Member States explicitly mandated the European Commission to conclude the negotiations on their behalf, there is significant scope for EU countries to play an active and constructive role in the negotiations. By providing feedback and guidance to EU negotiators and stakeholders, and by communicating about TTIP to their citizens through regular and active engagement with stakeholders at all levels of society, EU governments can help to define and shape an agreement fit for today's modern, globalised world;

→ Enhance their economic relationships with the US through domestic policies of their own. TTIP is expected to result in more significant economic benefits for those EU Member States that are relatively more integrated with the US. Therefore, enacting policies independent of but flanking TTIP that encourage trade between their countries and the US could further boost growth, reduce income inequality and modernise their economies;

→ Conduct a thorough exploration of the effects of TTIP on their own countries, so that they can reap the many potential benefits of TTIP and mitigate any possible negative effects on their economies. TTIP will result in different outcomes both at the horizontal and at the sectoral levels. Therefore, economic, social and environmental policies that account for the expected impacts of TTIP will bring benefits to the individual EU Member States and also a net benefit to the EU as a whole;

→ Devote particular attention to formulating and implementing policies that support the enhanced education of their workforces, including at both the low- and highly-skilled levels. TTIP is expected to enact changes, albeit moderate, in the economies of individual EU Member States, including by impacting on production and labour. Highly educated workforces across the EU will be better equipped to adapt to the changing demands on their economies from both TTIP and from external factors such as technological progress.

We recommend the following to the European Commission:

→ Seek to (gradually) phase out tariffs in the agricultural and manufacturing sectors to minimise the trade diversion effects that could arise from TTIP;

→ Continue to deepen the Internal Market in parallel to TTIP, since the more integrated it is, the greater the effects from TTIP. Our analysis, also confirmed by other studies, demonstrates that spill-over gains arising from TTIP are likely to occur faster and more beneficially the more integrated the EU Internal Market is;

→ Maximise the potential gains from regulatory convergence, in particular by emphasising the importance of "equivalence" and "joint assessments" that would avoid complications associated with harmonisation, encourage integration of the transatlantic market, and promote a "race to the top" on regulation. To ensure that the benefits of regulatory cooperation continue to be felt long after an agreement is concluded, a Regulatory Cooperation Body (RCB) should be established in TTIP that empowers regulators to continually assess areas where regulatory cooperation could be enhanced;

→ Define clear provisions and guarantees within both the sectoral and horizontal chapters in TTIP to ensure that the high standards enjoyed by citizens on both sides of the Atlantic are resolutely upheld. The stronger the provisions, the greater the opportunity for TTIP to set a template for future trade agreements and for standards at the global level;

→ Devote particular emphasis to increased opportunities for small- and medium-sized enterprises in TTIP, since they lack the resources of big companies to overcome the many burdensome regulatory and other barriers to trade. TTIP will be the first EU free trade agreement that devotes a specific chapter to SMEs. However, negotiators should ensure that the fundamental importance of SMEs to TTIP is embedded across the agreement. This could for example, include the creation of an "SME Test" within TTIP that would analyse the potential effects on SMEs arising from any TTIP element;

→ Use TTIP as an opportunity to reform mechanisms that have been used to safeguard investors' rights and create a new standard for these instruments globally. The European Commission, in its November 2015 negotiating proposal, put forward constructive proposals for a reform of ISDS called ICS, to provide a balance between investment protection and the public interest. It should continue to engage with EU policymakers and stakeholders on this issue and ensure that investment provisions in TTIP safeguard governments' right to regulate, provide guarantees to investors, and serve as a model for similar instruments in EU free trade agreements and in investment treaties around the world;

→ Make TTIP an open trade agreement with very few Rules of Origin provisions and with the possibility for third countries to join in the future. The first element of an 'open' TTIP means that mutual recognition in TTIP should apply to any producer that adheres to the set standards and regulations, not just EU and US producers. The second element of an 'open' TTIP means that TTIP should be open for accession by countries that want to do so and that commit to maintaining equivalent high standards and levels of protection;

→ Maintain an ambitious transparency agenda and explore further opportunities to engage with the public. Already, the European Commission has initiated an unprecedented level of transparency in its approach to the TTIP negotiations, by publicising negotiating documents and by engaging in regular consultation with stakeholders and policymakers. This approach will ensure that the EU delivers an agreement that best meets the needs of EU citizens and business.

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40 Note that the European Commission defines carbon leakage in the ETS Directive (2009/29/EC) as “an increase in greenhouse gas emissions in third countries where industry would not be subject to comparable carbon constraints” and thus focuses on the “real-time” relocation of production, i.e. is concerned with the lowering of production quantities in the EU which are substituted for by imports from outside the area of the EU ETS – “production leakage”. The problem of “investment leakage” – the issue of EU firms strategically investing in regions with lower carbon costs – is excluded from the European Commission’s definition, but is certainly relevant especially in the long run.

41 DG TRADE publications (EU position papers, EU published textual proposals, see http://ec.europa.eu/trade/), EU negotiating mandate. (http://data.consilium.europa.eu/doc/document/ST-11103-2013-DCL-1/en/pdf), existing trade agreements (e.g. US trade agreements so far have not included a reference to climate change), United States Trade Representative (www.ustr.gov), leaked EU negotiating mandate.

42 DG TRADE has published a number of documents and fact sheets with information on their goals and on the topics which are excluded from the negotiations. For example, one factsheet stresses that the EU’s GMO regulation is not part of the negotiations and thus will not be changed by TTIP. However, the factsheets also make clear that the negotiations will result in compromises and therefore the precise outcome is difficult to predict (see http://trade.ec.europa.eu/doclib/docs/2013/july/tradoc_151605.pdf).

43 Note that the EU has – following an EU citizens’ initiative – recently affirmed that it will exclude water supply and management from Internal Market rules and liberalization. This indicates that negotiators will be careful to open this particular service in a trade agreement. See http://europa.eu/rapid/press-release_IP-14-277_en.html .

44 See negotiating mandate of the EU of June 17, 2013, available at http://data.consilium.europa.eu/doc/document/ST-11103-2013-DCL-1/en/pdf .

45 The 2012 US Model Bilateral Investment Treaty for example defines that “[e]xcept in rare circumstances, non-discriminatory regulatory actions by a Party that are designed and applied to protect legitimate public welfare objectives, such as public health, safety, and the environment, do not constitute indirect expropriations.”.

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49 Francois et al. (2013): “Reducing Transatlantic Barriers to Trade and Investment. An Economic Assessment”, Final Project Report prepared under Framework Contract TRADE/10/A2/A16. CEPR.

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51 The CEPR study also considers land use – it models land as a factor of production, like capital or labour. Using the same assumptions and scenarios as above, and defining land use intensity as total value added activity for a fixed stock of land, it estimates an increase in land use intensity in the EU by 0.05% and 0.06% in the less ambitious and ambitious scenarios, respectively. In the US, land use intensity is expected to decrease by 0.01% in the less ambitious scenario, and stay constant in the ambitious scenario. Global land use intensity is also estimated to stay roughly constant. Overall, the effects are quite small and indicate that TTIP will not affect land use significantly.

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54 There are economic liberals in the US highlighting the risks of this possibility for economic freedom, cf. a comment by Alden Abbott for the Heritage Foundation, http://www.heritage.org/research/commentary/2014/12/transatlantic-trade-negotiations-keeping-regulation-in-check .

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58 See Aichele et al. (2014): “Going Deep: The Trade and Welfare Effects of TTIP”, CESifo Working Paper 5150; see also: Felbermayr et al. (2015): “Potential Impacts of the Transatlantic Trade and Investment Partnership (TTIP) on developing and emerging economies”, Study by the Ifo Institute (Munich) and the Institute for Applied Economic Research (Tübingen), commissioned by the German Federal Ministry for Economic Cooperation and Development.

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ANNEX II: METHODOLOGY

Key features of the model

Model simulations are based on a multi-region global CGE model. Sectors are linked through intermediate input coefficients (based on national social accounts data) as well as competition in primary factor markets. The model includes imperfect competition, short-run and long-run macroeconomic closure options, as well as the standard static, perfect competition, Armington-type of model as a subset. It also allows alternative labour market closures. On the policy side, it offers the option to implement tariff reductions, export tax and subsidy reduction, trade quota expansion, input subsidies, output subsidies, and reductions in trade costs. International trade costs include shipping and logistic services (the source of fob-cif margins) but can also be modelled as Samuelson-type deadweight costs. This can be used to capture higher costs when producing for export markets, due to regulatory barriers or NTBs that do not generate rents (or where the rents are dissipated through rent-seeking).

A.1 Model Non-Technical Annex

The Computable General Equilibrium (CGE) model employed for this publication is based on the widely used GTAP model (Hertel, 1997), with added features from the Francois, van Meijl, and van Tongeren (2005) model, following closely the implementation in the CEPR (2013) study of TTIP. More technical details of the model are provided in the technical annex. The most important aspects of the model can be summarised as follows:

- It covers global world trade and production
- It allows for scale economies and imperfect competition
- It includes intermediate linkages between sectors
- It allows for trade to impact on capital stocks through investment effects which allows us to obtain longer-run impacts on the economy

In the model, there is a single representative composite household in each region, with expenditures allocated over personal consumption and savings. The composite household owns endowments of the factors of production and receives income by selling these factors to firms. It also receives income from tariff revenue and rents accruing from import/export quota licenses. Part of the income is distributed as subsidy payments to some sectors, primarily in agriculture.

Taxes are included at several levels in the modelling. Production taxes are placed on intermediate or primary inputs, or on output. Tariffs are levied at the border. Additional internal taxes are placed on domestic or imported intermediate inputs, and may be applied at differential rates that discriminate against imports. Where relevant, taxes are also placed on exports, and on primary factor income. Finally, where relevant (as indicated by social accounting data) taxes are placed on final consumption, and can be applied differentially to consumption of domestic and imported goods.

On the production side, in all sectors, firms employ domestic production factors (capital, labour and land) and intermediate inputs from domestic and foreign sources to produce outputs in the most cost-efficient way that technology allows. Perfect competition is assumed in all sectors except heavy manufacturing sectors. In sectors where perfect competition is assumed, products from different regions are assumed to be imperfect substitutes.

Heavy manufacturing sectors are modelled with imperfect or monopolistic competition. Monopolistic competition involves scale economies that are internal to each firm, depending on its own production level. An important property of the monopolistic competition model is that increased specialisation at intermediate stages of production yields returns due to specialisation, where the sector as a whole becomes more productive the broader the range of specialised inputs. These gains spill over through two-way trade in specialised intermediate goods. With these 'spill-overs', trade liberalisation can lead to global scale effects related to specialisation. Similar gains follow from consumer goods specialisation.

In the standard GTAP model, tariffs and tariff revenues are explicit in the GTAP database, and therefore in the core model. However, NTBs affecting goods and services trade, as well as cost savings linked to trade facilitation, are not explicit in the database and hence a technical coefficient must be introduced to capture these effects. For this, we instead model NTBs as a mix of dead weight or iceberg costs[1] , and rents generated by NTBs. In formal terms, dead-weight costs capture the impact of non-tariff measures on the price of imports from a particular exporter due to destination-specific changes in costs for production and delivery.

The model incorporates GTAP v9 data. The GTAP data are benchmarked to the year 2011, but this is projected to the base year 2030. Tariffs reflect the most recent applied rates, as incorporated in the GTAP database. While the GTAP database has 57 sectors and 140 different regions available, for the purpose of this study we have aggregated sectors and regions to allow us to concentrate on the key results. The sectoring and regions scheme follows the CEPR (2013) and Ecorys (2009) studies, with a further breakout of individual Member States.

[1] We follow the standard approach to modelling iceberg or dead-weight trade costs in the GTAP framework, originally developed by Francois (1999, 2001) with support from the European Commission to study the Millennium Round (now known as the Doha Round). This approach has grown from an extension in early applications to a now standard feature of the GTAP model, following Hertel, Walmsley and Itakura (2001). It has featured in the joint European Commission-Canadian government study on an EU-Canada FTA, as well as the 2009 Ecorys study on EU-US non-tariff barriers and the CEPR (2013) study.

ANNEX III: A SUMMARY HISTORY OF EU-US REGULATORY COOPERATION: 1995-2015

By: Mr. Jan Frydman

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In 1995, failed efforts towards a transatlantic marketplace (the "New Transatlantic Marketplace" or NTM) were followed by the adoption of the **New Transatlantic Agenda** (NTA) and the creation of the **Trans-Atlantic Business Dialogue** (TABD). Dialogues between consumer organisations (TACD), environmental groups (TAED) and labour unions (TALD) were also started but only the former two still exist.

In 1997, the then EU-US Summit adopted a **joint statement on regulatory cooperation**, calling for enhanced cooperation whenever possible in the early stages of drafting regulations, greater reliance on each other's technical resources and expertise, and harmonisation of regulatory requirements or mutual recognition.

In 1998, the EU-US developed a **Mutual Recognition Agreement** (MRA) of conformity assessment certificates (i.e. without alignment of the relevant regulations). Subsequently, an "enhanced MRA" (i.e. one that concerns mutual recognition of certificates based on equivalent or common requirements) was agreed in the area of marine safety equipment.

In 1998, the EU and the US launched the **Transatlantic Economic Partnership** (TEP). The related **TEP Action Plan** called for action to address technical barriers to trade in goods, including improving the dialogue between EU and US regulators.

On the basis of the TEP Action Plan, and following some three years of negotiations, the European Commission and the US Government developed a key document: the **EU-US Guidelines on Regulatory Cooperation and Transparency**, endorsed by the EU-US Summit in 2002. The Guidelines have several objectives, including to "improve the quality and level of technical regulations and pursue, as appropriate, harmonized, equivalent or compatible solutions, and take appropriate steps to minimize or eliminate unnecessary divergence in regulations..." They offer practical guidance on how regulatory cooperation could take place for each step of the regulatory process. The Guidelines apply to the regulators of the US Federal Government and the services of the European Commission on a voluntary basis and as broadly as possible. The regulatory activity concerned is the planning and development of technical regulations relating to goods in the entire field of application of the WTO/TBT Agreement (except agricultural products), and apply both to future technical regulations, as well as to amendments to existing technical regulations, that regulators of either side believe may have significant trade effects.

The Guidelines are particularly relevant since they enjoy "regulator buy-in": they were developed in close cooperation with regulators on both sides – and were even "approved" in internal inter-service (European Commission) and interagency (US) procedures - to ensure that they make sense to those who would apply them. They also carry particular legal importance: following a challenge in the European Court of Justice by an EU Member State (France), the Court confirmed *inter alia* the right of the Commission to conduct regulatory dialogues with third country governments in this form as part of its process of preparing regulatory proposals.

The Guidelines were "implemented" by a series of **annual Roadmaps**, recognised by successive EU-US Summits between 2004-2007 (the first Roadmap is noted in the "EU-US Declaration on Strengthening our Economic Partnership", adopted by the EU-US Summit in 2004 as one of the areas where concrete progress has been made in the work to create a seamless Transatlantic Economic Partnership). These Roadmaps created a concrete work programme to be implemented during the year following its adoption, and attempted to support a move towards a more systematic approach in regulatory cooperation. Roadmaps outlined a broad range of activities intended to expand market opportunities and help minimise EU-US regulatory divergences – both horizontally and in a number of sectors.

Horizontally, a dialogue between the European Commission and the White House's Office of Management and Budget/Office of Information and Regulatory Affairs (OMB/OIRA), the so called **OMB-EC Dialogue**, addressed, through a series of meetings and high calibre seminars, the foundational issues of regulation, i.e. "how we regulate": regulatory policy, impact assessment, risk assessment, risk management and regulatory processes, including transparency. The Roadmap also suggested an informal exchange programme between regulators to enhance understanding and cooperation where useful. The most recent Roadmap (from 2007, as no Roadmaps were developed following the start of TEC) also included sectoral dialogues in no fewer than 13 different areas: pharmaceuticals, medical devices, cosmetics, chemicals, automobiles, electrical equipment, consumer product safety, ICT standards, telecommunications equipment, marine equipment, energy efficiency, eco design and nutritional labelling.

In 2002, the EU-US Summit adopted the **Positive Economic Agenda** (PEA), and a related Roadmap to it. First among its items was the implementation of the Guidelines on Regulatory Cooperation and Transparency.

In 2004, the EU-US Summit adopted the EU-US Declaration on strengthening our economic partnership, which supported the Guidelines and its Roadmap.

In 2005, the then EU-US Summit launched an **Initiative to Enhance Transatlantic Economic Integration and Growth**. One of the priorities of this initiative was to promote EU-US regulatory cooperation with the creation of the **EU-US High Level Regulatory Cooperation Forum**. The main purpose was to offer regulators on both sides the necessary senior level support and direction as to the implementation of the Guidelines and its Roadmap, i.e. how and on what to cooperate. The overarching objectives of the Forum are to promote better quality regulation, in particular through the exchange of best practices on general or cross-cutting regulatory approaches, and to minimise unnecessary regulatory divergences to facilitate transatlantic trade.

The Forum provides a platform for Commission and US senior government officials to address cross-cutting regulatory cooperation topics of common interest to regulators, such as regulatory policy matters. Importantly, it also addressed the future EU-US cooperative agenda by exchanging the annual Commission and US regulatory work programmes to serve the two-fold purpose of identifying possible areas of cooperation and provide "early warning" on new regulatory initiatives of interest to the other side.

The Forum also addresses best cooperative practices ("what works in our cooperation, what does not work, what can be improved and how"). The document "EU-US Best Cooperative Practices" was developed and adopted by the Forum in 2006 to be attached to the Guidelines as further support to regulators wishing to cooperate. The Forum has met several times, and systematically involves stakeholders in public sessions which form part of its regular meetings. The Forum has achieved important results to date by significantly improving the common understanding of each side's regulatory system and by facilitating cooperation on cross-cutting regulatory issues, as well as early dialogue in key emerging sectors.

In 2007, the EU-US Summit adopted (and European Commission President Barroso, US President Bush and Chancellor Merkel of Germany that held the rotating EU presidency, signed) the **Framework for Advancing Transatlantic Economic Integration** between the EU and the US. The Framework established the **Transatlantic Economic Council (TEC)**, consisting, for the first time, of the political level on both sides, to inject political support to the process in a number of areas. The Framework highlighted the need to "foster cooperation and reduce regulatory burdens", and reiterated the joint support of the implementation of the Roadmap for regulatory cooperation, including its sectoral dialogues and the OMB-EC Dialogue as well as the High Level Regulatory Cooperation Forum, to consist of the heads of the relevant regulatory bodies.

In 2012, the work towards a **Transatlantic Trade and Investment Partnership, TTIP**, started...