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PROSPECTS FOR A TRANSATLANTIC FTA IMPLICATIONS FOR JAPAN & THE GLOBAL TRADING SYSTEM

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» Re-engineering the world's largest economic link?

Bilateral trade and market space

- » The transatlantic economy represents 54% of world GDP (2011)
- » \$5 trillion total commercial sales
- » Employs around 15 million people in total
- » EU and US together account for 25% of global exports; 32% of global imports

Investments

- » Mutual investment stocks worth over €2.1 trillion
- » 58% of global inward FDI stocks
- » 72% of global outward FDI stocks

High degree of intra-firm trade

- » 61% of U.S. imports from the EU;
- » 31% of U.S. exports to EU

» Previous transatlantic initiatives



1995— New Transatlantic Agenda, Transatlantic Business Dialogue

1998— New Transatlantic Marketplace

- » Proposed by Sir Leon Brittan after completion of the Single Market and WTO
- » Tariff elimination, services FTA, extension of MRAs



2007— Transatlantic Economic Council

- » Reduce barriers to TA trade and investment
- » Enhance economic integration and growth

Disappointing results

- » Before 2011, only resulted in “open skies” and weak co-operation agreements on IP, innovation, energy and chemicals
- » Proposals of full scale FTAs from the US to the EU

» European scepticism to a Transatlantic FTA

”A bilateral EU/US FTA would undermine the multilateral system”

- » EU moratorium on FTAs (until *Global Europe*, 2007)
- » Strong commitment to the WTO system within the EU trade leadership

Ideological divide between EU/US after 9/11

- » Liberal, free trade order replaced by mercantilism or priority to foreign policy
- » German and French opposition to Iraq war

Sectoral approach to US-EU cooperation

- » Trade & investments considered to be already liberalised
- » 'Small' gains not worth the effort or difficulties to make concessions
 - Non-tariff barriers being the main obstacles, significant potential gains from elimination but difficult to negotiate
 - Mutual recognition; regulatory harmonisation

Impossible to do a FTA while excluding sensitive sectors

- » GATT Art XXIV

» Shifting trade priorities

From Doha impasse to bilateral FTAs

- » Yet little economic value in small FTAs (< 0.1% of GDP)
- » Focus on 'big' trading partners

New trade issues and barriers

- » From manufacturing tariffs to services and NTBs
- » Potential common positions

Rise of emerging countries and Asia

- » Necessary to coordinate against BRICs

2008 sub-prime crisis and the euro-crisis

- » Sensitivities in manufacturing
- » Soft mercantilism
- » Domestic lobbies, especially in manufacturing
 - Need for growth to sustain current levels of employment and re-balance current account
 - Difficulties to conclude FTAs with export-driven economies

» ECIPE/GMF Transatlantic Task Force

» Members

- ▶ **Chairpersons** — Ewa Björling (co-chair), Minister of Trade, Sweden; Jim Kolbe (co-chair), fmr U.S. Congress
- ▶ **Policy makers** — Jennifer Hillman, Member of the WTO Appellate Body; Charles P. Heeter Jr., Chairman of OECD Business and Industry Advisory Committee; Erika Mann, EU Director of Facebook, former European Parliament's Committee on International Trade; Hugo Paemen, Former EU Ambassador to the U.S, Ana Palacio, former Minister of Foreign Affairs of Spain, Senior Vice President of the World Bank; Susan C. Schwab, former US Trade Representative
- ▶ **Business** — Thomas Harris, Vice Chairman of Standard & Chartered; Charles S. Levy, Cassidy Levy Kent; James H. Quigley, CEO, Deloitte Touche Tohmatsu;
- ▶ **Academics** — Prof Dan Drezner, Fletcher School of Law and Diplomacy; Prof Patrick Messerlin, Sciences Po, Chairman of UN Millennium Development Goals Task Force
- ▶ **Drafting & research** — ECIPE secretariat; (Bruce Stokes (GMF), Bruce Wilson (fmr WTO legal division) also rapporteurs

» Main conclusions:

- ▶ "The EU and the U.S. should move to a barrier-free transatlantic marketplace for trade and investment"
- ▶ Deeper transatlantic economic integration creates momentum for multilateral trade liberalisation
- ▶ Decentralised and sector-driven approach as part of an ambitious deal
- ▶ Initiatives based on preferential market access (non-mfn), but open for anyone to join
- ▶ Active involvement of private sector stakeholders in the negotiating process
- ▶ Revitalised idea-based leadership on trade

» Taskforce recommendations

EU/US bilateral relations

- » **Tariff** elimination (Transatlantic Zero-tariff Agreement)
- » Regulatory cooperation to eliminate **NTBs**
- » Substantial liberalisation of trade in **services**
- » Intensified **cooperation on FTAs with third countries**
- » Launch negotiations on a bilateral investment agreement (**BIT**) with strong disciplines
- » Bilateral **public procurement agreement**

Joint-multilateral initiatives

- » **Plurilateral/sectoral** agreements
 - Full coverage digital economy agreement
- » Preferential agreements among "coalitions of the willing", open for others to join (**non-MFN**, no free-riding)
- » Plurilateral framework agreement in **services**
- » Closer EU-U.S. cooperation to promote enforcement of disciplines on **subsidies and state-owned enterprises**
- » Strengthen the WTO Trade Policy Review mechanism (**TPRM**)
- » Expand Government Procurement Agreement (**GPA**) even further

» Broad political support

United States Senate
WASHINGTON, DC 20510

February 22, 2012

The President
The White House
Washington, DC 20500

Dear Mr. President,

We commend the establishment of the High-Level Working Group on Jobs and Growth that you and Presidents Van Rompuy and Barroso agreed to at the November 28, 2011, United States-European Union Summit in Washington. We urge the leaders of the Working Group, U.S. Trade Representative Ambassador Ron Kirk and EU Trade Commissioner Karel De Gucht, to quickly formulate ambitious proposals to remove unnecessary barriers to transatlantic commerce and investment. Strengthening our economic ties will create new opportunities for American businesses and workers.

The United States and the European Union, who together form the world's largest single commercial relationship valued at over \$4 trillion, face continuing fiscal challenges to spur economic growth. To attract investment and create jobs at home, we need to continue to open new markets and innovate, as we face new sources of competition from emerging markets around the world. As we take steps to create the conditions for sustained future economic growth, we should make increased trade and investment with the European Union a priority.

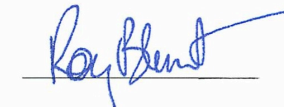
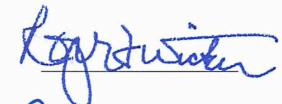
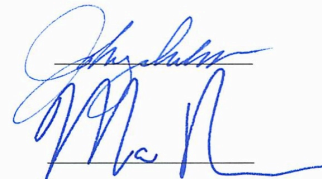
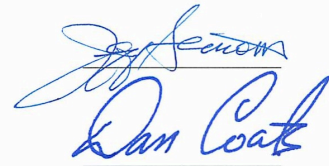
While the United States and European markets are already highly integrated through trade, investment and foreign sales of our companies, even small steps will generate significant new economic opportunities and growth. For example, a study by the European Center for International Political Economy has demonstrated that by eliminating the already low tariffs on transatlantic trade in goods, the United States and the EU could boost their combined Gross Domestic Product by \$180 billion in five years. Additional growth could follow from addressing regulatory barriers, reducing tariffs to zero where possible, expanding trade in services, negotiating an investment agreement, and further opening up our public procurement markets to each other.

We look forward to working closely with you to achieve the full economic potential of the transatlantic economic relationship, and we believe such efforts can create new opportunities for our businesses and workers and strengthen our leadership in the global economy.

Sincerely,



The President
February 22, 2012
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» Recent developments

High-level Working Group on Jobs and Growth

- Tariffs
- Services and investment;
- Compatibility of regulations and standards;
- NTBs
- Rules and principles on global issues of common concern, shared economic goals relating to third countries.

» Interim report June 2012, final report with recommendations due end of 2012

EU/US Trade Principles for Information and Communication Technology Services, April 2011

Statement of the EU and the United States on Shared Principles for International Investment, April 2012

Mutual Recognition Agreement for Authorised Economic Operators, May 2012

» State of play: Strong political interest but underestimation of difficulties

Chapter by chapter approach?

- » Preferred by EU/US business over single undertaking

Transatlantic zero-tariff agreement

- » GDP increase: 0.32~0.47% for the EU (or \$46~\$69 bn), 0.99~1.33% for the US (\$135~\$181 bn)
- » Tariff peaks and NTBs (chemicals, pharmaceuticals), agriculture

Separate Services and Investment FTA?

- » Prioritised by the US industry
 - ▶ With real market access, not binding of existing liberalisation
- » Sensitive sectors
 - ▶ Examples: audiovisuals, air transport, electricity, telecom; transport, maritime, postal services
 - ▶ State-level commitments
 - ▶ Investment — new EU Commission competence, without a coherent EU policy, existing bilateral agreements between the US and EU member states

Public procurement

- » Perception that the EU is more open than the US, 13 US states do not participate in the GPA

» Implications for Japan and the trading system

- » Indirectly a new priority in EU trade policy
 - Completes EU strategy to mitigate NAFTA (Mexico 1997, Canada 2012/2013)
 - Lack of political support for WTO & Asia-Pacific
 - Protectionist industries in the EU support EU/US FTA
- » Spill-over to other FTA negotiations, incl. Japan
 - US sets a new level of demands on EU sensitive sectors
 - Negotiation on regulatory co-operation/NTBs – common situation on ECE
 - Chapter-by-chapter negotiations amongst top 5 economies? Belief that single-undertaking is necessary against Asian trading partners
- » The US may demand a scoping exercise with EU
 - Dangerous precedence set by EU-Japan FTA
 - US worry about lack of concessions from EU (the EU's inner/outer link)
- » Overlaps and conflicts with multi/plurilaterals
 - 'Ideological disagreement' on:
 - MFN – example: International Services Agreement (ISA) or strengthening GATS, ICT-only
 - Role of the WTO and Doha — is EU/US FTA a building block or a stumbling block to multilateral co-operation?
- » A new transatlantic leadership emerging?
 - Transatlantic FTA with cross-ownership, MNCs and shared business/policy culture – creating a new trade policy coordination and standard-setting mechanism?
 - Impact on the influence of Japanese business?



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