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NEW ECIPE STUDY

## **A New Trade Agenda for Transatlantic Economic Cooperation**

**Few policy issues in Brussels and Washington DC are met with such a compact unity across political boundaries as the idea of deepened transatlantic economic integration. Twenty years after the fall of the Berlin Wall, the support for transatlantic economic co-operation remains strong. The election of Barack Obama as the new president of the United States has added new political appeal to the transatlantic agenda. Yet post cold-war initiatives to deepen transatlantic economic integration, and they have been many, have largely failed to achieve anything substantial. This paper by Fredrik Erixon and Gernot Pehnelt sets out new approaches to transatlantic economic integration.**

Deepened transatlantic economic cooperation has been a desire on both sides of the Atlantic since the end of the cold war. Yet largely all attempts at policy-driven economic integration have failed. One could even make an argument to the opposite end: While American and European producers and consumers have continued to drive real, *de facto* economic integration between the two, policy initiatives like the Sarbanes-Oxley Act and the EU chemicals directive (REACH) have enforced differences over market regulations and made policy integration more difficult.

The Transatlantic Economic Council (TEC) is the current format for ambitions to deepen bilateral economic integration. The TEC was set up in spring 2007 on the initiative of Angela Merkel, the German chancellor, and deliberately aimed at a limited agenda for regulatory harmonization in selected areas. Two years into the working of the TEC it is difficult to point to any substantial achievements. In fact, efforts to harmonize regulations have been remarkably ineffective. The key achievement so far, for the numerous delegations that have travelled many air miles to foster common regulatory approaches, appears to be entrenched hostilities toward the other party over its regulation of the use of chlorine when chicken meat is washed. Why is it so difficult to advance deepened transatlantic economic cooperation? In the past decade, the ambition to start and finish the Doha Round initially kept the EU and the US away from significant bilateral initiatives, but that has changed in the past years.

- There are technical and political difficulties. Transatlantic free trade would imply going deep into regulatory differences between the two parties, which is a venture any policymaker hasten to do. But regulatory differences, many of which can be solved, have become an expedient excuse for political leaders who lack the will to do the necessary reforms.

A new approach is needed if leaders are serious about their desire to foster deeper transatlantic economic integration. But the initiative must aim higher than just regulatory cooperation. In this paper, two alternatives are outlined. First, the EU and the US launch negotiations over a Free Trade Agreement (FTA) that does away with tariff on goods. The benefits from such a trade deal would not be very big – tariffs are generally low in Europe as well as the United States. But such an agreement could be quickly negotiated, spur activity in the WTO, and set the track for a more ambitious deal on non-tariff barriers (NTBs), FDI barriers, and barriers protecting services. Second, the two parties directly launch negotiations over an ambitious FTA that aims at ‘deep integration’ with reductions or eliminations of NTBs and behind-the-border barriers to trade and investment. Both alternatives should be open to any other country that wants to join.

The paper outlines the pros and cons of the two alternatives. They could be summarized as follows. An ambitious FTA, aiming at ‘deep integration’, would deliver much bigger benefits than ‘shallow integration’, based only on tariffs. But ambitions can also bite the nail of success. An ambitious FTA would take much longer to negotiate and require political resolve on both sides to actually reform some key regulations and border barriers.

#### Publication details

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