



BULLETIN

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The EU–U.S. Free Trade Agreement: Lessons from the Single European Act

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The potential benefits of an EU–U.S. free trade agreement (FTA) could be substantial for both parties. Most of the value would come from the reduction of regulatory barriers to trade. Negotiators will have to overcome many hurdles, but making reference to the historical success of the Single European Act could facilitate the talks. Poland stands to gain from an EU–U.S. FTA, but should ensure its core interests are promoted during the negotiations.

Potential Gains and Hurdles. In February, the EU and the U.S. announced their intention to start negotiations on the Transatlantic Trade and Investment Partnership (TTIP). Attempts to start free trade talks between the two powers have successively failed since the 1990s, due to a lack of real interest, incompatible economic prescriptions, and internal disagreement.¹ Today, changed circumstances, including the global financial crisis and the rise of emerging economies, have created the impetus to launch negotiations. The EU and U.S. still enjoy the world's most significant bilateral trade and investment relationship, so an FTA would have far-reaching consequences. Every day, goods and services worth €1.8 billion are traded between the EU and the U.S. By reducing barriers to trade, the TTIP could, according to the European Commission, boost the EU's GDP by 0.5% annually, and America's by 0.4% by 2027. An ambitious and comprehensive agreement could also serve as a blueprint for future FTAs involving the EU, the U.S., or other states.

The TTIP talks are due to begin in July 2013, and the most optimistic forecasts expect them to last two years. Nominally, the TTIP consists of two key elements: the reduction of tariffs and the removal of regulatory barriers to trade. In fact, trade tariffs between the EU and the U.S. are already very low, averaging about 3%. The biggest barriers to trade across the Atlantic are actually regulatory differences, which the European Commission estimates increase production costs by up to 20%. Therefore, the main task for negotiators will be to better harmonise EU and U.S. regulatory standards. These apply to all goods and services, but regulations surrounding agricultural products are likely to be the most contentious. Discrepancies in rules regarding genetically engineered crops, hormone-treated beef, and chlorine-washed poultry betray the differences in European and American cultural attitudes to sanitary and phytosanitary issues. There are other potential sticking points, including the Buy American Act's limits on public procurement, the restrictions on foreign investment in the U.S. transport industry, and controls on foreign access to strategic sectors in some EU countries (e.g., France, Italy). Talks will be tough, and with so many hurdles to overcome, negotiators may wish to look to historical agreements of similar complexity to assess and increase their chances of success.

Lessons from the SEA. In past FTA negotiations, such as NAFTA or the EU–Korea FTA, the EU and the U.S. have been the dominant side, and so able to more or less dictate their terms. This time, both parties are facing a comparable economic power across the negotiating table (in 2012, the EU's GDP was €12.9 trillion, the U.S.'s was €12.3 trillion), and so will have to be more flexible in making concessions. In order to prevent TTIP from stalling, negotiators on both sides of the Atlantic could learn from the European experience of negotiating the Single European

¹ A. Gradziuk, "Szanse i przeszkody w realizacji projektu TAFTA" [Opportunities and hurdles to the realisation of the TAFTA project], *Biuletyn PISM*, nr 20 (434), 19 April 2007.

Act (SEA) in the early 1980s. SEA reformed supranational decision-making procedures and established the creation of the Single Market as a clear European Community objective. Talks on SEA faced several hurdles, including an abiding sense of Europessimism after a series of failed negotiations, and British resistance to France and Germany's project of expanding the roles of European supranational institutions. The talks succeeded in 1986 thanks to two key factors: (a) the convergence of economic policy prescriptions in key EU countries; and (b) the use of negotiating leverage in threatening the UK with a "two-track" Europe if it did not accept the proposed procedural reforms. By analogy, if the TTIP talks are to succeed, the EU and U.S. should: (a) agree on the desirability of the project; and (b) use negotiating leverage to ensure talks come to a successful conclusion.

It is unclear whether either party is meeting the first condition found in the SEA negotiations' success. In Europe, the end of the Commission's term of office in October 2014 is an impetus to get the TTIP talks launched and wrapped up within two years. An FTA with the U.S. would represent a real coup for an organisation that has overseen little good news during the economic crisis. But much as the Commission may be on board with TTIP, all 27 Member States are not. Already, France has voiced scepticism in view of its dedication to protecting its national cultural industry. On the U.S. side, it is unclear whether trade liberalisation is currently a high priority. President Obama expounded the potential benefits of TTIP in his State of the Union Address this year, and a successful conclusion to the talks would be a positive addition to his legacy when his term ends in four years. But his Administration has not ratified a single new free trade agreement, has not regained presidential fast-track negotiating authority from Congress since it expired in 2007, and has yet to nominate a permanent Trade Representative since Ron Kirk's departure in February.

These uncertainties surrounding EU and U.S. dedication to TTIP mean that the actors responsible for the talks will have to wield negotiating leverage if they are to succeed—such as when France and Germany used the threat of a "two-track" Europe on the UK in the 1980s. The prospect of further global marginalisation would be most persuasive for EU naysayers. Fears of America's pivot to Asia are particularly potent. The U.S. is already negotiating a Trans-Pacific Partnership agreement with a dozen Asian and Latin American partners. Further motivation comes from the likelihood of continued economic stagnation, as growth forecasts for 2013 have been cut, and the threat of banking crises lingers. The TTIP negotiations would improve investor sentiment and moods in Brussels and EU capitals. In the U.S., the sustained rise of China as an economic power is a convincing argument for backing TTIP. Last year, the OECD predicted that China's economy will overtake the U.S.'s in the next four years. Moreover, President Obama's promise to double American exports in 2010–2015 is far from completion (so far, according to U.S. Census data, they have barely increased 20%). This should spur the U.S. to move forward with the potentially export-boosting TTIP. If negotiators brandish this leverage, they will be better able to overcome the lack of enthusiasm for the FTA of some EU Member States and parts of the U.S. executive and legislative branches.

Conclusions and Recommendations. The TTIP talks face various hurdles, but making reference to the successful conclusion of the SEA negotiations in 1986 shows they could be overcome if there were sufficient determination to achieve a common goal that would benefit the negotiating parties. It is true that whereas the EU Member States shared the same economic prescriptions in the 1980s, there is not unanimous support for TTIP in the EU and the U.S. But where SEA negotiators had only the threat of a "two-track" Europe to use as leverage against British resistance to procedural reform, the architects of TTIP will be able to motivate reticent parties on both sides of the Atlantic with a wide array of carrots and sticks.

Poland stands to gain from TTIP. It enjoys a significant trade surplus with the U.S. (\$1.3 billion last year), but the annual growth rate of its transatlantic exports has slowed considerably (from 48% in 2011 to 6% in 2012). Given the makeup of its exports to the U.S., Poland would particularly benefit from the TTIP's regulatory harmonisation in sectors such as aeronautics, telecommunications, industrial machinery and medical equipment. Polish farmers could profit from TTIP by promoting their products as wholesome and organic in both the EU and the U.S., particularly if American genetically modified products are given access to the EU market. Polish businesses and consumers would gain from reduced tariffs on American imports. Increased transatlantic competition in the high tech sector could also promote production in Poland. Given these potential benefits, Poland should encourage the TTIP talks, particularly in areas such as the free movement of labour and people, given its interest in the U.S. lifting visa restrictions for Polish citizens, though this issue should not dictate Polish support for TTIP, especially as a relevant bill was recently reintroduced to Congress.