KAREL DE GUCHT
MEMBER OF THE EUROPEAN COMMISSION

Brussels, 2 0 AOUT 2014
KDG/MVH/CBE/dcm/S(14)1969575

Dear Madam Stoczkiewicz, Madam Goyens,

Thank you for your letter of 5 May 2014 regarding the economic impact assessment of the Transatlantic Trade & Investment Partnership (TTIP) and how the Commission has communicated its results. Let me first apologize for taking some time to answer your letter.

Before I address in detail your remarks, I would like to stress two things.

First, a public debate on TTIP is very welcome. As you know, my services and I have been making intense efforts since long before the formal launch of the TTIP negotiations to communicate clearly, accurately and in a timely manner on the topic. At all levels, we are very much willing to listen to different viewpoints and we have frequent meetings with a broad range of stakeholders, including with the organisations you represent. The stakeholder events organised during each round of negotiations or the dedicated Civil Society Dialogue meetings organised by DG Trade are examples of this commitment. I cannot but encourage you to continue speaking up and to discuss your concerns with me and my services.

Second, I do indeed believe that the debate on TTIP should be based on facts, not fear or hyperbole. This is crucial to ensure that everybody is able to understand what a TTIP deal could deliver for EU citizens, and also to ensure that we in the Commission are able to act on concerns raised. Where concerns are based on fear or hyperbole, and are therefore unfounded, we can only try to communicate better. I therefore appreciate your writing to me on this issue and I can assure you that we will continue to pay close attention to the effectiveness and accuracy of our communications about TTIP.

Having said this, I also believe that high profile participants in the public debate carries an important responsibility in keeping the debate factual and rational.

Mrs Magda Stoczkiewicz
Director,
Friends of the Earth Europe
Magda.stoczkiewiecz@foeurope.org

Mrs Monique Goyens
Director General
The European Consumer Organisation (BEUC)
mgo@beuc.eu

Turning to your four concrete examples of "imprecise communication by the Commission" on the TTIP economic impact assessment:

1. *We make clear when we cite figures that we are talking about an ambitious TTIP deal, in line with our mandate issued by the Council. The higher estimates in the CEPR study*[1] *derive from its "ambitious experiment" modelling. To be clear, this is an extract from the conclusions of the CEPR study (page 95):*

"The results indicate positive and significant gains for both the EU and the US. GDP is estimated to increase by 68-119 billion euros for EU and 50-95 billion euros for the US (under the less ambitious and the ambitious FTA scenarios, respectively). However, if the trade initiative would be limited to tariff liberalisation only, or services or procurement liberalisation only, the estimated gains would be significantly lower. An FTA limited to tariff liberalisation would lead to 24 billion euros increase in GDP for the EU and 9 billion euros increase for the US. Thus implementing a comprehensive FTA would bring greater benefits to both economies."

Furthermore, as we noted in our explanatory guide to the study (page 3):

"It is also likely that the study underestimates, rather than overestimates the gains from a potential agreement. This is because the model is not able to take all effects on productivity into account, for example. The same goes for the positive effects on foreign investment by multinational firms, which are very significant for international trade in services in particular."[2]

You suggest in your letter that negotiations may not be on track for an ambitious result in the areas necessary to make sure that TTIP delivers the expected benefits. I do not share that view. Both the EU and the US maintain their commitment to agree a "comprehensive and ambitious"[3] *deal, tackling all the areas raised by the High Level Working Group on Jobs & Growth*[4]*. I can assure you that the Commission does not intend to conclude the negotiations until we have met our agreed goals to deliver the right results for EU citizens.*

2. *Both the CEPR study and our explanatory document about it*[5] *make clear that the expected benefits are drawn from a modelled projection of TTIP's potential impact by 2027. This is in order to allow the necessary economic adjustments to take place, which would happen gradually. This does not mean that no benefit will be felt before 2027. For example, the EU-South Korea free trade agreement*[6] *came into force in July 2011. EU exports to South Korea increased by 24% (€ 7bn) in the second year of the FTA, compared to the year before it took effect. During the same period, exports of goods which were fully liberalised by the FTA increased even more, by*

[1] http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf
[2] *Economic Analysis Explained:* http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151787.pdf
[3] EU-US Summit 2014:
http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/141920.pdf
[4] HLWG Final Report: http://trade.ec.europa.eu/doclib/docs/2013/february/tradoc_150519.pdf
[5] *Economic Analysis Explained:* http://trade.ec.europa.eu/doclib/docs/2013/september/tradoc_151787.pdf
[6] EU-South Korea trade: http://ec.europa.eu/trade/policy/countries-and-regions/countries/south-korea/

37% (€4.5bn). Nor should it be taken to mean that all adjustments would be completed exactly in 2027. While some elements of an eventual TTIP deal may take time to come into force, the EU would expect the majority of tariff reductions to be front-loaded as we have achieved in other negotiations, meaning that many sectors will start seeing benefits immediately. Where practical, we would apply the same logic to other market access and regulatory areas.

We will continue to endeavour being clear that all benefits will not arise immediately.

3. *Measuring the potential impact of an ambitious TTIP deal on job creation is indeed challenging. The CEPR study did not measure the impact of the agreement on job creation, but only the potential movement of jobs between sectors and changes in wages. Both the CEPR study and our explanatory document make this clear, as have a number of our communications. My point in the Prague speech of October 2013 was framed as a probability rather than a certainty. In any case, the statement is based on an estimate that combines previous research[7] on the quantification of the number of jobs in the EU that are supported by exports to the rest of the world and the increase in exporting activity projected by CEPR for an ambitious TTIP. However, even if grounded on research material, as it is clearly set out in our explanatory document, this approach can only deliver a very partial picture of the wider employment effects of a trade agreement like TTIP, which CEPR has refrained from analysing due to the existing methodological shortcomings.*

We will endeavour to be clearer about the potential effects of TTIP on job creation in future communications.

4. *We have absolutely no intention of using "obfuscating" language about TTIP in our publications. While the specific example you quote is formally correct, I agree that it could have been drafted more precisely to avoid any scope for misunderstanding. But let me be clear: an increase in EU GDP of 0.5% by 2027 is not a one-off gain. A trade agreement permanently changes the structure of an economy by increasing the possible amount of exports and imports. That allows the economy to produce more wealth in any given year. In a nutshell, what the CEPR study has found is that by 2027 (the indicative date for a full TTIP implementation and economic re-adjustments), our GDP will increase by 0.5% relative to what it would be without the agreement in place and will continue to maintain that higher level in subsequent years, in addition to any other growth drivers that may be at work in our economy, irrespective of TTIP. As I explained above, these results take some time materialise fully, as they require the economy to adjust, which happens only gradually. In the modelling simulation used by CEPR in 2027 (assumed to be 10 years after the implementation of the agreement) the EU economy would be permanently 0.5% larger than it would be without TTIP. Furthermore, it is not true that no additional growth is expected after 2027. That was simply the date up until which the modelling projection was extended. This does not exclude the possibility of future GDP growth as a result of more efficient EU-US trade. In today's economic climate this is surely to*

[7] DG Trade Chief Economist Note, issue 2, 2012 *"Extra -EU exports and employment"* http://trade.ec.europa.eu/doclib/docs/2012/may/tradoc_149511.%202_24.05.2012.pdf

be welcomed. And, as mentioned above, we believe the CEPR study underestimates, rather than overestimates, the benefits since productivity increases are difficult to model.

It is true that many areas of trade policy are technical, and our economic and negotiating jargon may not always be sufficiently adapted to each and every audience. We need to find the right balance between communicating the full detail and communicating in a way that non-experts can understand clearly.

I hope that these clarifications are helpful.

Yours sincerely,

Karel De Gucht