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TEN ARGUMENTS FOR TTIP AND THE CONCERNS TO ADDRESS

Foreword by
José Manuel Barroso
Stuart E. Eizenstat

Authors
Andrea Montanino
Earl Anthony Wayne

A EuroGrowth Initiative Publication

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ABOUT THE EUROGROWTH INITIATIVE

The Atlantic Council 'EuroGrowth Initiative' is an EU-US platform to stimulate thinking on how the current challenges for the European economy can be transformed into opportunities to achieve a more sustainable growth path. Through briefs, reports, and events, the EuroGrowth Initiative identifies practical solutions and best practices, and provides a forum for new and innovative ideas. The initiative aims to energize—not teach—key stakeholders on both sides of the Atlantic and bring them to design the right approaches for growth, taking into consideration the unique European institutional setting.

Leveraging the expertise and network of the Atlantic Council's Global Business and Economics program, the EuroGrowth Initiative presents Europe in a new light and promote a deepened transatlantic partnership as we build a path for long-term growth together.

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FOREWORD

The United States and the European Union (EU) are negotiating a new kind of trade and investment agreement in a complicated setting. The world is looking for ways to increase economic growth and prosperity in an epoch of slow recovery from the 2009 recession, while many on both sides of the Atlantic are questioning the value of trade agreements, European and American civil society elements are mobilized to protect environmental and public health standards from potential encroachment and to counter what is seen as undue influence by big business in trade negotiations. Yet, as Earl Anthony Wayne and Andrea Montanino argue in this study, a successful Transatlantic Trade and Investment agreement should create new jobs, reduce costs, increase efficiency, and create new opportunities for innovation and small and medium enterprises on both sides of our shared ocean, while protecting high quality standards and regulations that citizens from America and Europe seek. It will also send powerful and positive signals to the rest of the world if the United States and the EU can successfully reach agreement.

The agreement will build on the massive trade and investment relationship that already exists and that had helped generate the levels of prosperity that both the EU and the United States already enjoy. It also takes into account that Europe and the United States already have some of the highest labor, environmental, public health, and safety standards in the world. Both sides of the Atlantic have highly developed systems designed to formulate, deploy and monitor the norms and rules established, and overall these systems do a good job of meeting the needs of their citizens, while continuing to evolve and improve. Thus, this agreement should avoid many of the criticisms about other agreements that involve countries whose standards are lower than those of the United States or the European Union, or whose workers enjoy significantly lower benefits and pay.

Also, as this paper points out, the EU and the US have different approaches to standards and protections in a number of areas, but each side has areas where its system is stricter than that on the other side of the ocean, and overall the two systems would seem to give similar levels of protection to its citizens. In addition, the negotiators have made clear that their objectives are to maintain high standard regulations in the agreement but to find ways to have a more harmonious and efficient interaction of the two sets of systems and regulatory regimes that currently exist in the United States and the EU. This outcome can be extremely valuable for reducing costs to businesses and consumers, as well as opening transatlantic markets to smaller companies and entrepreneurs who don't have the funds to deal with many layers of different systems. Thus, this paper argues, and we agree, that a successful TTIP negotiation can help spur growth and reduce costs on both sides of the Atlantic while preserving citizen protections. While TTIP may not solve the "secular stagnation" that many economists argue is severely hampering economic growth, an agreement can be part of the solution.

In addition, as Montanino and Wayne write, a successful US-EU agreement would help establish high-standard practices that other key trading partners, such as China, Brazil, and India, might see as models to emulate, especially given the weight the EU and the US carry in the world economy and the international trading system. The agreement could well inspire some forward movement in the World Trade Organization, which has been struggling to build consensus on additional steps for multilateral trade agreements. To a country such as Russia, it could be a reminder both of the broad areas of agreement across the Atlantic and of the power of our market-based, democratic systems. Indeed, a TTIP agreement would be a superb additional pilar to the close collaboration of Europe and the United States to manage a range of crises around the world both in NATO and in ad hoc groupings. Finally, we note that the political windows of opportunity to put TTIP across the finish line are limited by US elections and elections next year in Europe, but we believe that these events give good reason to move vigorously to reach agreement by the end of 2016.

We are very pleased that this paper by Wayne and Montanino will be the first of a series of studies as part of the Atlantic Council's EuroGrowth Initiative, which we chair. We hope these papers and related events will increase awareness in the US of the value of a stronger Europe and of the importance of Europe and the US working together and learning from each other to make our economies stronger.

José Manuel Barroso

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INTRODUCTION

Trade has always been a key tool for advancing civilizations and improving living standards. For the ancient kingdoms of Mesopotamia and Egypt, and during the reign of Rome, trade brought innovation, discoveries, and prosperity for many centuries.

Following Marco Polo's trip to China, European trade attention shifted to the Far East. Europe and the Far East traded silk, spices, and technologies for the benefit of the development of human beings. From the sixteenth century until very recently, trade was also a transatlantic issue. Ships from Spain, Portugal, Britain, and the Netherlands crossed the Atlantic and established a new era of European influence in the Western Hemisphere. Since the end of WWII, a massive flow of investment spread across the Atlantic, making Europe and the United States highly interconnected. Japan and South Korea emerged as key Asian global trading partners, and North America and Europe built stronger trade and investment interconnections between and across their continents.

The twenty-first century is the era of globalization: Old actors (China and India) are again playing key roles as they were five hundred years ago, while newer players (Mexico, Indonesia, Nigeria, South Africa, and Brazil) are becoming increasingly integrated in world trade. Until the end of the 1990s, the importance of BRICS economies (Brazil, Russia, India, China, and South Africa) in global trade was negligible, but trade to and from China and the other BRICS countries is now significant (see figure 1). China and the United States now have similar shares of global trade (see figure 2).

In such a context, new challenges arise for global economic governance. A more coordinated effort is needed to set appropriate rules; create incentives and disincentives for countries to behave in the interest of the broader international community; manage the complexity of a globalized economy; and innovate in developing best practices for handling new goods, services, and priority concerns.

These challenges indicate why the United States and Europe need to build a transatlantic "internal market" by establishing a successful Transatlantic Trade and Investment Partnership (TTIP) agreement. An agreement among the $35 trillion transatlantic economies, with $5.5 trillion in commerce every year that generates up to fifteen million jobs on both sides of the Atlantic, can be a model for the world.[1]

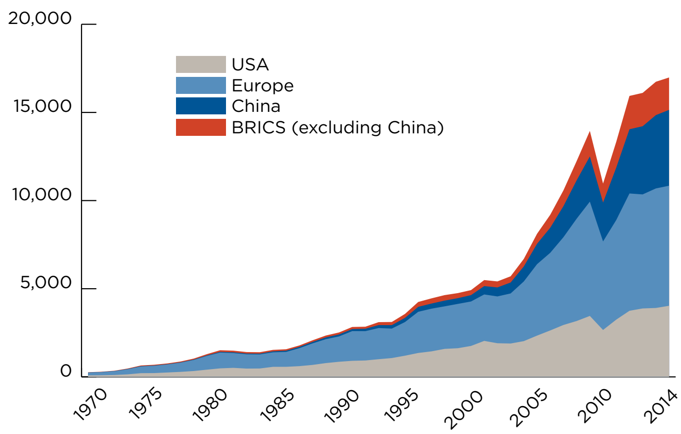
> An agreement among the $35 trillion transatlantic economies, with $5.5 trillion in commerce every year that generates up to fifteen million jobs on both sides of the Atlantic, can be a model for the world.

A TTIP agreement can help others more clearly see the advantages of a high-standard, rules-based international economic system. Major players will have to take note of this new model between two economic giants. For China, the agreement will send a clear message that following market-based rules of the road is the way to go. For Russia, it will be a sign of the economic vitality linking the two sides of the Atlantic. For other emerging markets, it will be a model for how to continue to trade with the United States and European Union (EU) and increase their economic share. And, by making TTIP a "living," or dynamic, agreement, the EU and the United States can more closely embrace other transatlantic partners, such as Mexico, Canada, and the European Free Trade Association (EFTA) countries (Iceland, Liechtenstein, Norway, and Switzerland).

A transatlantic internal market might help the United States and the EU continue to play key roles in global economic governance; cooperate better in developing technologies and innovation for the benefit of the whole world; better integrate the struggle against terrorism and cyber threats, as part of managing the transatlantic market; and better manage massive migration caused by

1 Jyrki Katainen, "A Roadmap for European Growth," speech delivered at the Atlantic Council, March 2, 2016, http://europa.eu/rapid/press-release_SPEECH-16-547_en.htm.

Figure 1. World Trade (billion of US dollars)



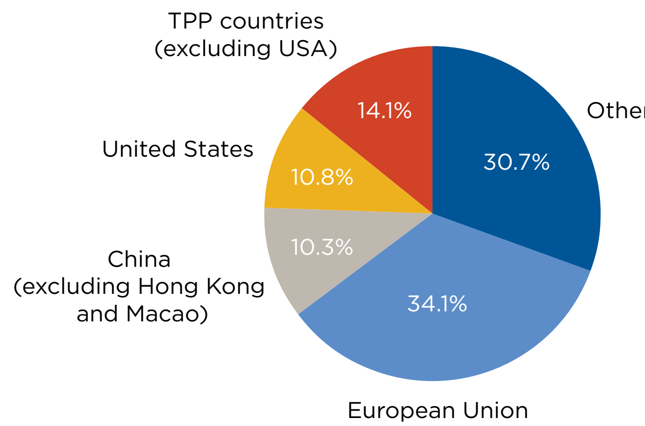
Source: World Trade Organization.

poverty and war through economic integration of people, no matter on which side of the Atlantic they land. From a strategic standpoint, both sides of the Atlantic—and the rest of the world—would see this agreement as a signal of strengthened partnership. TTIP would let others know that the United States and the EU see each other as preferred partners for new chapters of economic collaboration.[2]

TTIP is difficult to negotiate. It is tackling very tough issues, and its negotiators have to forge new mechanisms and institutions to handle them. Already, the complexity of the issues is evident as the pace of negotiations is slower than some had anticipated. Plus, determined opposition to any agreement at all is evident in some quarters. Success will require short-term political courage by leaders on both sides of the Atlantic. Nevertheless, the strategic impact of success of a new model agreement will bring important advances in dealing with nontariff barriers (NTBs)[3]; setting new standards; and opening new opportunities for growth, which would be enormously beneficial both economically and politically.

The reward more than justifies the need for creative and determined negotiation, patience, and resolute leadership. Accompanying this negotiation, however, must be a concerted public outreach program to explain TTIP's value to citizens in Europe and the United States. The alternative of not vigorously pursuing TTIP and forging an agreement would be a serious strategic blow for both sides of the Atlantic.

Figure 2. Share of World Trade (2014)



Source: World Trade Organization.

At a time when both Europe and the United States are looking for ways to spur economic growth and employment, it would be a lost opportunity not to press forward with a vigorous negotiation of TTIP. And when the World Trade Organization (WTO) has been unable to move ahead with a new trade round, it would be wrong for the European Union and the United States not to lead efforts to define a new generation of international rules, practices, and norms with TTIP. Though complicated to forge, a "living" TTIP treaty can build higher standards and regulatory protections while reducing redundancies and costs.

At a time when shared democratic values are under attack around the world, the United States and Europe need to demonstrate their unity. TTIP can embody a new chapter of partnership, more closely tying together the transatlantic community and strengthening the foundation for its cooperation with other countries.

We argue that there are at least ten good reasons for an ambitious TTIP.

2 Daniel S. Hamilton, ed., *The Geopolitics of TTIP - Repositioning the Transatlantic Relationship for a Changing World -* (Washington DC: Center for Transatlantic Relations, 2014); Judy Dempsey, "Come On Europe, Go for TTIP!" Carnegie Europe, October 12, 2015, http://carnegieeurope.eu/strategiceurope/?fa=61584.

3 Nontariff Barriers (NTBs) are trade restrictions that take a form other than a tariff. Nontariff barriers include quotas, embargoes, special licenses, sanctions, export restrictions, technical barriers to trade and others.

TEN ARGUMENTS FOR TTIP

NUMBER 1. INCREASE COMPETITIVENESS

Regulators around the world create rules to satisfy the different needs of their citizens and to protect their markets against behavior that can generate an overall loss of welfare. However, regulations can also increase the cost of doing business, create barriers for newcomers, and therefore raise consumer prices. So, rules and regulations need to strike the right balance between protecting citizens and overburdening businesses. Regulations cannot be eliminated with a trade agreement, but they can be reduced as much as possible to enable newcomers to enter national markets, thereby increasing competition and reducing extra profits that might arise in uncompetitive markets. TTIP can reduce nontariff barriers and achieve regulatory equivalence, convergence, mutual recognition, and harmonization in regulation, depending on what is feasible in various sectors. Rules will stay, but can evolve into different formats based on mutual trust. In doing so, firms will save time and compliance costs because once the product or the service is compliant on one side of the Atlantic, it will automatically be compliant on the other side too. Revisiting regulations on both sides of the Atlantic can have another positive side effect: It can help lead to an adaptation of old rules that have accumulated over time to a new globalized economic order, increasing competitiveness for both the United States and the EU.

Table 1. Competitiveness Ranking

Country	Rank
United States	3
Germany	4
United Kingdom	10
France	22
Spain	33
Italy	43

Source: World Economic Forum 2016 Competitiveness Ranking.

Pascal Lamy, former head of the WTO, has characterized regulatory convergence as the central goal for TTIP, which could create new world standards on how to apply “precaution” in trade and regulatory agreements.[4] The negotiations also seek to reach agreement on standards and norms in key areas such as investment, intellectual property rights, industrial policy, state-owned enterprises, and government/public procurement, which could go well beyond existing WTO disciplines and again open new opportunities for gains and savings in trade between the United States and the EU. But the major potential gains from TTIP involve reducing inefficiencies, redundancies, and unnecessary differences in standards in the regulatory processes on both sides of the Atlantic. The goal is not only to lower costs for businesses, but also to provide a greater variety of goods and services, bring more innovative products to consumers, and lower prices, while preserving high-standard protections. Through an ambitious TTIP, the already-high competitiveness ranking of the United States and most European countries can be maintained and even improved over time (see table 1).

NUMBER 2. INCREASE INVESTMENT

Massive amounts of transatlantic investment also brings great economic gain to each partner. In fact, mutual investment ties between the United States and the EU outsize the trading relationship. In 2013, sales by US affiliate companies in Europe topped $3.1 trillion, and sales by majority-owned European affiliates in the United States surpassed $2.4 trillion.[5] Thus, even relatively marginal improvements in cost reductions and improved efficiencies from TTIP are likely to have a big impact in terms of sales and jobs.

Investment rules and norms and the process for settling disputes over government actions that investors believe infringe upon their rights are areas where the United States and EU negotiators

4 Pascal Lamy, “The New Global Trade Agenda,” speech delivered at the Peterson Institute for International Economics, November 2, 2015, http://www.iie.com/events/event_detail.cfm?EventID=414.

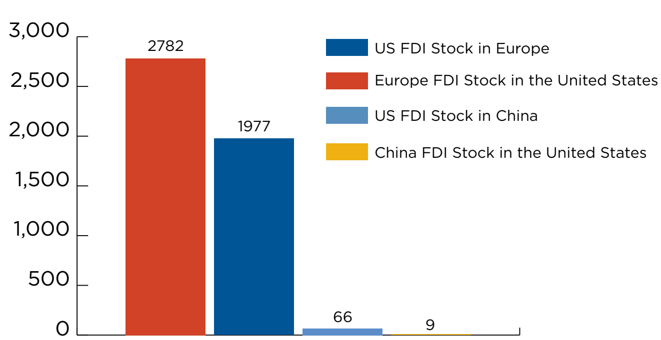
5 Daniel S. Hamilton and Joseph P. Quinlan, *The Transatlantic Economy 2015 - Annual Survey of Jobs, Trade, and Investment between the United States and Europe*- (Washington DC: Center for Transatlantic Relations, 2015).

see gains to be made. But critics worry that a TTIP agreement allowing companies that have invested on the other side of the Atlantic to challenge domestic or EU regulations could undermine the power of local courts and the ability of authorities to regulate.

The concern that an agreement could allow companies to overturn "good" regulations or laws has become a rallying cry for those opposed to TTIP (and other free trade agreements) on both sides of the Atlantic, mobilizing many tens of thousands to protest in Germany during the fall of 2015. However, there are a number of reasons why this concern is overblown: investment by Europe and the United States in the other's marketplace far outweighs trade as the backbone of the transatlantic economy; Europeans and Americans have insisted on including investment protections in their accords with others around the world; and the actual awards from dispute settlements have had a very limited impact on existing regulations given the massive amounts of investment that takes place.[6]

The United States and the EU are each other's primary destination for foreign direct investment (FDI). US affiliate sales in Europe in 2013 were more than the value of all US exports to the entire world that year, while majority-owned European affiliate sales in the United States were more than triple European exports to the United States.[7] Thus, unsurprisingly, intrafirm transfers make up a very large percentage of transatlantic trade.

Figure 3. FDI Stocks as of 2014



Source: UN Conference on Trade and Development.

6 Charles Ries, "Why the Baltics Should Care about TTIP," speech delivered at the Embassy of the United States in Lithuania, November 25, 2014, http://vilnius.usembassy.gov/business/why-the-baltics-should-care-about-t-tip.html.

7 Hamilton and Quinlan, *The Transatlantic Economy 2015*, op. cit., p. 15.

In this context, it becomes clear that reducing intercountry differences in standards and regulations makes particularly good sense, given the structure of the EU-US trade and investment relationship, and that there are probably gains to be made in areas relating to investment rules and norms. In this context, it is important to remember that the EU and the United States have an opportunity to send clear messages to the rest of their global trade and investment partners about how to treat foreign investment, through the investment chapter they agree to in TTIP. So, it is not just about how good each other's judicial systems are in handling any disputes across the Atlantic—it is about establishing best practices for others.

NUMBER 3. BOOST SMALL- AND MEDIUM-SIZED ENTERPRISES

A well-crafted TTIP could also help further democratize transatlantic trade by opening new opportunities for small- and medium-sized enterprises (SMEs). Since trade between larger companies carries significant weight in current transatlantic trade, it is particularly important that TTIP also lowers barriers to entry for smaller firms. These firms can take full advantage of the Internet to establish new, targeted markets on the other side of the Atlantic in less costly ways that were not possible in earlier decades.

If negotiators can further reduce barriers to trade, there might be significant jumps in market-creating activity by entrepreneurs since SMEs are capable of generating, relatively quickly, significant job growth and competition, and introducing innovative products and services. Plus, many of these SMEs would likely be founded or staffed by younger workers. Not creating such openings for growth, jobs, and creativity by entrepreneurs would mean forgoing serious opportunities to take the economies of the United States and EU into new territories of innovation (see table 2).[8]

NUMBER 4. OPEN UP SERVICES

The potential of TTIP to bring about additional liberalization in services should not be overlooked. The United States and the EU are the two largest service economies in the world. They are major potential growth markets for each other. US service exports to Europe totaled $267 billion in

8 Ries, *Why the Baltics Should Care about TTIP,* op. cit.; Daniel S. Hamilton and Jacques Pelkmans, eds., *Rule-Makers or Rule-Takers? - Exploring the Transatlantic Trade and Investment Partnership* – (Washington DC: Center for Transatlantic Relations; Brussels: Centre for European Policy Studies, 2015).

Table 2. Exporting SMEs

	Number of SMEs*	Number of Total Exporters	Share of SMEs to Total Exporting Firms	Share of SMEs' Exports Value to Total Exports Value
	In Thousands		In Percentage	
EU to the United States	150	169	88%	28%
United States to the EU	95	99	96%	30%

Source: Eurostat Trade by Enterprise Characteristics database; US Census, Foreign Trade Division.
*The EU defines SMEs as firms with 1-249 employees. The United States defines SMEs as firms with 1-500 employees. Data for EU from 2012; data for the United States from 2011.

2014 and European service exports to the United States were $203 billion the same year.[9] In both directions, exports have grown at impressive paces since 2009.

There are serious difficulties to be addressed in opening a number of service sectors for structural reasons, e.g., federal versus state and public versus private regulation of professional services; and the United States has indicated that it does not want to include financial services in the agreement. Nevertheless, there should still be a good opportunity to create significant market growth opportunities in a TTIP accord, and again, perhaps in ways that open doors for smaller service providers.[10] Indeed, Gary Hufbauer, Senior Fellow at the Peterson Institute for International Economics in Washington, DC, characterizes the degree of service openings as "the real test for TTIP."[11]

NUMBER 5. BALANCE THE TRANSATLANTIC PARTNERSHIP

The security ties embodied in NATO are vitally important for both sides of the Atlantic. Recent events in Ukraine, and Russia's actions in Syria, have reminded us all how vital it is to have a functioning security framework. But a relationship built on mutual prosperity, as well as mutual security is much stronger than relying on security ties alone. This is quite true for European and American partners in Eastern Europe and countries in Eurasia that value Western prosperity and open societies—models that Russia does not embody.

Along this vein, if TTIP were to include a chapter on energy that helped open the door for increased US energy sales to Europe, or even included a procedure for getting emergency energy supplies to the EU, TTIP would be directly reinforcing US and European strategic interests. The United States has a clear strategic interest in reducing the vulnerability of its European allies and partners to political and economic coercion from a dominant energy supplier like Russia. Right now, European dependence on Russian gas supplies is increasing Europe's vulnerability to a Russian supply disruption. If an energy chapter in TTIP could help pave the way for more US gas and even crude oil exports to the EU, either on a regular basis or even on just an emergency basis, that would be a welcome contribution to the EU's energy security, especially vis-à-vis Russia, and would reduce the opportunities for Moscow to pressure European countries with threats of cutting off natural gas supplies.[12]

NUMBER 6. REINFORCE SHARED VALUES

Both economic and security relationships between the United States and the EU reinforce the values shared across the Atlantic about democracy, rule of law, market-based systems, human rights, and environmental protection, to mention a few. These values are under attack around the world,

9 Data from Bureau of Economic Analysis (BEA).

10 Hamilton and Quinlan, *The Transatlantic Economy 2015*, op. cit., p. 23.

11 Gary Clyde Hufbauer, "Assessing the Trans-Pacific Partnership: Market Access and Sectoral Issues," speech delivered at the Peterson Institute for International Economics, February 2, 2016, http://www.iie.com/publications/interstitial.cfm?ResearchID=2909.

12 Bud Coote, *Empowering America: How Energy Abundance Can Strengthen US Global Leadership*, Atlantic Council, July 2015, http://www.atlanticcouncil.org/publications/reports/empowering-america-how-energy-abundance-can-strengthen-us-global-leadership.

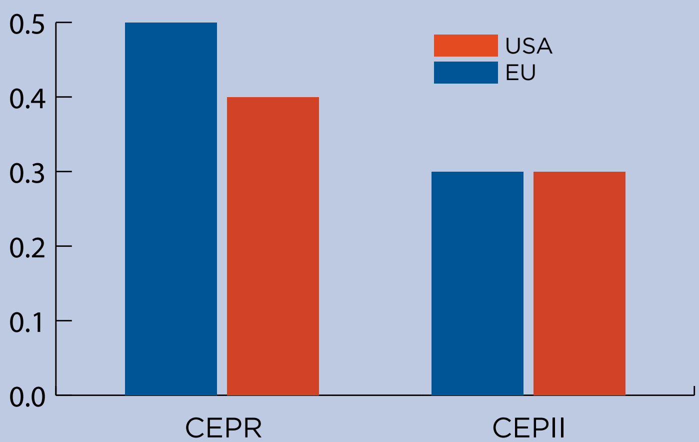
BOX 1: MACROECONOMIC BENEFITS OF THE TTIP
by Samuel Dorshimer[1]

Since TTIP negotiations began in July 2013, a number of studies have been published examining the potential economic impacts of an agreement. A study commissioned by the European Commission and conducted by the Centre for Economic Policy Research (CEPR) in the United Kingdom in March 2013 estimated gross domestic product (GDP) gains from TTIP at €119 billion per year in the European Union and €95 billion per year in the United States, or annualized gains of 0.5 percent and 0.4 percent of GDP, respectively.[2]

Another study from the Centre d'Études Prospectives et d'Informations Internationales (CEPII) similarly estimated annualized gains from a TTIP agreement at around 0.3 percent of GDP for both parties.[3] More recently, the European Parliament commissioned a study by the Center for European Policy Studies that assessed the projections of these studies and concluded that the methodology was sound, but also that the CEPII study's more-conservative estimate of annualized gains of 0.3 percent of GDP for both sides was the most realistic assessment.[4]

Each of these studies employed its own version of a computable general equilibrium (CGE) model of global trade patterns, using no TTIP agreement as a baseline scenario. They then modeled the possible impact of an agreement in several scenarios, varied by the ambitiousness of the agreement. One drawback of using these models, and one of the main reasons for their differing estimates, is the difficulty of assessing the impact of reducing nontariff barriers. Because NTBs have not been addressed as centrally in a trade agreement before, and because their impact on trade is more difficult to quantify than that of traditional tariff barriers, there is more uncertainty in modeling the impact of a reduction in NTBs. This has also led to some criticism of projected benefits.

Figure 4. Annualized GDP Gains from TTIP (in percentage)



Sources: Centre for Economic Policy Research; Centre d'Études Prospectives et d'Informations Internationales

A study commissioned by the Confederal Group of the European United Left/Nordic Green Left party in the European Parliament, and carried out by the Austrian Foundation for Development Research, took issue with the CGE models used and with the estimated reduction of NTBs.[5] Their study argued that these previous studies had overestimated the extent to which NTBs could be reduced and that the ultimate gains in GDP and reduced unemployment were overly optimistic given the difficulty in modeling reductions in NTBs.

In fact, the general consensus among these studies is that most of the economic gains from TTIP—most estimates, including the European Commission's, suggest around 80 percent of the gains—would come from a reduction in

1 Samuel Dorshimer is Project Assistant at the Atlantic Council's Cyber Statecraft Initiative.

2 Joseph Francois, ed., "Reducing Transatlantic Barriers to Trade and Investment - An Economic Assessment –" Centre for Economic Policy Research, March 2013, http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf.

3 Lionel Fontagné, Julien Gourdon, and Sébastien Jean, "Transatlantic Trade: Whither Partnership, Which economic Consequences?" Centre d'Études Prospectives et d'Informations Internationales, September 2013, http://www.cepii.fr/CEPII/en/publications/pb/abstract.asp?NoDoc=6113.

4 Jacques Pelkmans, Arjan Lejour, Lorna Schrefler, Federica Mustilli, and Jacopo Timini, "The Impact of TTIP - The underlying economic model and comparisons," Center for European Policy Studies, Brussels, October 2014, https://www.ceps.eu/publications/impact-ttip-underlying-economic-model-and-comparisons.

5 Werner Raza, ed., "Assessing the Claimed Benefits of the Transatlantic Trade and Investment Partnership (TTIP)," Austrian Foundation for Development Research, March 2014, http://www.guengl.eu/uploads/plenary-focus-pdf/ASSESS_TTIP.pdf.

nontariff barriers.[6] This is part of what makes the TTIP such an ambitious agreement, but also why the negotiations are so politically fraught. For most of the potential gains to be realized, an ambitious agreement will need to be negotiated, but achieving an ambitious agreement also requires overcoming complicated policy and substantive regulatory obstacles in negotiations.

Several other studies have taken a more granular look at country-, state-, and industry-level effects. A study by the Bertelsmann Foundation and Global Economic Dynamics estimated annualized per capita income gains in a less-ambitious agreement, covering only tariffs of a quarter of a percent or more in over half of the twenty-eight European Union countries, with gains particularly strong in Eastern Europe.[7] A more ambitious agreement with comprehensive liberalization could potentially increase annualized per capita income gains by several percentage points both in Europe and the United States. Another study co-published by the Atlantic Council, the British Embassy in Washington, and the Bertelsmann Foundation focused on the impacts on the United States and estimated that an agreement could boost exports to the European Union by at least 20 percent in forty of the fifty states, with some states doubling their exports.[8] Additionally, a TTIP agreement could have significant benefits for small- and medium-sized enterprises. According to a 2014 study by the Atlantic Council, 57 percent of European Union SMEs surveyed and 24 percent of US SMEs surveyed indicated that regulatory-process differences were among the primary barriers to exporting their products.[9] With TTIP's focus on nontariff barriers like regulatory differences, an agreement could significantly increase growth of SMEs on both sides of the Atlantic.

A recent study from the World Trade Institute, in coordination with several other research institutes, also looked at the state- and industry-level impacts of TTIP on EU member states.[10] The study provides an in-depth breakdown of TTIP's effect on wages, exports, GDP, consumer prices, and specific sectors that are a focus of the negotiations. In almost all cases, member states saw modest annualized GDP growth of around 0.5 percent of GDP. The study also found a modest decrease in consumer prices, with the largest contributor to the decline coming from automobile prices. Reduction and/or removal of auto-industry tariffs is one of the major parts of TTIP, as those tariffs are one of the largest remaining trade barriers between the United States and the EU. While much of TTIP negotiations focus on aligning NTBs and other regulatory harmonization goals, TTIP would also significantly increase trade in automobiles and provide greater market access through traditional tariff reductions, reducing prices for consumers significantly.

6 Joseph Francois, *Reducing Transatlantic Barriers to Trade and Investment*, op. cit., p.15.

7 Gabriel Felbermayr, Benedikt Heid, and Sybille Lehwal, "Transatlantic Trade and Investment Partnership, (TTIP) - Who benefits from a trade deal? –" Bertelsmann Foundation, Global Economic Dynamics, June 2013, http://www.bfna.org/sites/default/files/TTIP-GED%20study%2017June%202013.pdf.

8 Atlantic Council, British Embassy to the US and Bertelsmann Foundation, "TTIP and the Fifty States: Jobs and Growth from Coast to Coast," September 2013, http://www.atlanticcouncil.org/publications/reports/ttip-and-the-fifty-states-job-growth-from-coast-to-coast.

9 Garret Workman, "The Transatlantic Trade and Investment partnership: big opportunities for Small Business," Atlantic Council, November 2014, http://www.atlanticcouncil.org/publications/reports/ttip-sme-report.

10 World Trade Institute, "TTIP and the EU Member States," http://www.wti.org/media/filer_public/03/b8/03b803d4-e200-4841-9c58-f6612f4a7316/ttip_report_def.pdf.

and there are competing models of what should guide behavior and cooperation among states, and what best practices are. As the United States and Europe work through geopolitical, security, and humanitarian crises together, they are reminded that their shared principles make it much easier to forge solutions that also benefit other regions.

It is clear that TTIP provides the United States and Europe with the opportunity to build mutually reinforcing virtuous circles that strengthen each's ability to work together on difficult international crises and global issues, all the while helping to build their mutual prosperity.

NUMBER 7. INCREASE PREDILECTION TO WORK TOGETHER ELSEWHERE

In the case of TTIP, a successful negotiation will reinforce the ability and preference to lead elsewhere. The United States and Europe are each other's partner of choice when international crises or global issues need to be addressed, and that is

A container ship at the Burchardkai Terminal in Hamburg, one of the busiest ports in Europe.
Photo credit: Pixabay.

not going to change anytime soon. Each certainly works with other partners in various regions, but the United States and European nations are able to work together with a geographic reach and a breadth of substance that is unmatched. In the US-EU context, both have been widening and deepening that cooperation since signing the New Transatlantic Partnership agreement in the mid-1990s.

Even in those places where NATO or military engagement has been of primary importance, such as in Afghanistan and Iraq, the EU has been a vital partner in economic and development assistance to help achieve progress with local governments. Of course, a TTIP agreement will not solve all of the differences between the two sides or eliminate the need to hammer out agreements between the two regions on other foreign or global policy issues, but it will be a concrete example of the everyday benefits of transatlantic cooperation for citizens. The benefits that flow from US-EU cooperation and shared perspectives are often taken for granted across the Atlantic. Some have also seriously questioned the value of this partnership, citing in Europe the US pivot to Asia, for example. A successful TTIP negotiation should quiet many of these concerns.

NUMBER 8. SET HIGHER GLOBAL STANDARDS

In the economic, trade, and commercial arenas, a successful TTIP would set new high-standard rules in an era when, unfortunately, the WTO has been unable to achieve significant progress. The Trans-Pacific Partnership (TPP) is doing that in the Asia-Pacific context, and TTIP could be a powerful strategic companion agreement to send similar messages from the massive transatlantic marketplace. Successful TPP and TTIP agreements would open trade and investment for countries that embody approximately two-thirds of global output. And, TTIP will be able to go beyond TPP because the agreement is between two highly sophisticated economies, which share priorities and practices for protecting the environment, the consumer, and the worker. Though the high level of participation and mobilization of the European and American civil societies on these issues will vastly complicate the work of the negotiators, the prizes of coming to an agreement include achieving more prosperity, opportunity, and safety for US and European citizens, as well as sending a message to the rest of the world that higher levels of cooperation and stronger norms are possible and beneficial.

BOX 2: US-EU COOPERATION ON ECONOMIC SANCTIONS
by Nico Catano[1]

For the European Union to collectively impose sanctions, representatives from concerned countries must first meet, after which the European Council takes action. During a 2014 G7 meeting concerning Russia, leaders quickly reached a consensus that action was necessary on the Ukrainian crisis, aligning US-EU perspectives. Shortly after the meeting, the European Council froze the assets of "149 individuals and 37 entities."[2]

As initial economic and diplomatic coercion failed to rein in Russian aggression in Ukraine, the Council adopted a robust sanctions regime that followed the Minsk ceasefire agreement. It limited access to EU capital for Russian banks and subsidiaries, as well as that of certain major Russian energy and defense companies. The EU sanctioned the largest Russian banks: Sberbank, VTB, Gazprombank, Vnesheconombank, and Rosselkhozbank.

Before the consolidation of the EU, the United States would negotiate with many countries to coordinate policy actions such as sanctions, which limited their effectiveness. This process required a series of bilateral and multilateral negotiations, often requiring massive conferences and a series of meetings among various actors. Under the current EU institutional arrangement, any member state can present a proposal for sanctions, along with the High Representative of the Union for Foreign Affairs and Security Policy, who often works in conjunction with the European Commission. This proposal is discussed by the Foreign Affairs Council and then pushed through several stages of advisory instances. Ultimately, the decision is mainly in the hands of the Foreign Affairs Council.

Prior to the formation of the EU, European states lacked serious mechanisms to compel actors to join in on sanctions, and many would refuse to do so. But with the current institutional arrangement, the Council of Europe reaches consensus, and the EU acts. In addition, before the EU, dissenting states could drag their heels during negotiations and had little incentive to change their views. But with the EU structure in force today, a state like Greece, which objects to sanctions vis-à-vis Russia, is compelled to join with the rest of the EU. The EU structure facilitates unified action, which makes tasks such as imposing a robust sanctions regime much easier for the United States.

The EU institutions have made progress, having once been a loose and unwieldy organization; now there is a much more efficient apparatus that regulates and enforces all twenty-eight members' obligations within the EU's legal system. The Treaty of Rome in 1957 gave countries the ability to coordinate trade policies in a way that would imitate economic sanctions. But European institutions still lacked the ability to coerce member states to agree with the majority, and it also lacked the ability to take action on political sanctions. Sanctions became a major policy tool of the EU with the "Basic Principles on the Use of Restrictive Measures (Sanctions)," a policy document that called for targeted sanctions.[3] This allowed the EU to better target aspects of a country's economy related to the government without punishing the entire population.

In the Russia-Ukraine case, the burden of sanctions is not distributed equally, given the vastly different trade balances among member states: Germany had €75 billion worth of trade with Ukraine in 2013, with Netherlands in second (€37 billion), Italy in third (€30 billion), and Poland in fourth (€26 billion).[4] Since €26 billion represents over 5 percent of Poland's GDP, it is quite possible that without the support of European institutions, Poland would not have otherwise cooperated to make sanctions possible.

1 Nico Catano is Program Associate at John Snow, Inc.

2 European Council, "EU Restrictive Measures in Response to the Crisis in Ukraine," http://europa.eu/newsroom/highlights/special-coverage/eu_sanctions/index_en.htm.

3 European Council, "Basic principles on the Use of restrictive Measures (Sanctions)," http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2010198%202004%20REV%201.

4 Francesco Giumelli, "Who pays for the sanctions on Russia?," European Council on Foreign Relations, December 5, 2014, http://www.ecfr.eu/article/commentary_who_pays_for_the_sanctions_on_russia372.

Much of the impact of the economic sanctions on Russia stems from the EU. For example, Sberbank is Russia's largest bank with over 43 percent of its retail deposits and 282 branches in Europe.[5] It also has the largest market share in business and corporate banking in Russia. The interconnectedness of the European and Russian economies cannot be overstated, with the highest share of Russia's trade taking place with the EU.[6]

EU-US cooperation yielded similar success following action in 2012, when the two economic blocs banned trade with Iran's oil sector. The effect was immediate, as the EU previously accounted for 20 percent of Iranian oil exports.[7] When these sanctions were put into place, oil accounted for half of the Iranian government's revenue and one-fifth of the country's GDP; since then, exports have been cut in half.[8]

Another approach, initiated by the United States Department of the Treasury and backed by the EU, was to target Iran's trade by going after its shipping networks. They specifically targeted the Islamic Republic of Iran Shipping Lines (IRISL), a government shipping company. According to the Office of Foreign Asset Control Director, Adam Szubin, "we have tracked and exposed them [IRISL]. Altogether, we have targeted more than 150 IRISL-related vessels, companies, entities and individuals over the last three years."[9] Sanctions imposed a cost on both the Iranian corporate sector and government.

One of the most significant components of Iranian sanctions was financial, and under this umbrella the partners used SWIFT, an electronic payments system headquartered in Europe. It has quietly become an essential tool that banks use to operate in the global market. The threat of banning a bank from SWIFT sparks rapid responses from bank executives. When the United States sent signals of banning Russian banks from using SWIFT, the CEO of Russia's second-largest bank stated, "If there is no Swift, there is no banking . . . relationship, it means that the countries are on the verge of war, or they are definitely in a cold war."[10] In the Iranian case, SWIFT played a vital role in hurting financial institutions. Iran's fifteen leading banks were banned from SWIFT. Prior to 2012, SWIFT transactions in Europe, which were quickly blocked, were over $35 billion.[11] By crippling Iranian financial institutions, sanctions scored a direct blow to Iranian political will.

5 Christian Oliver and Kathrin Hille, "Sberbank target of latest EU sanctions," *Financial Times*, July 31, 2014, http://www.ft.com/intl/cms/s/0/a1607b32-18ca-11e4-80da-00144feabdc0.html.

6 BBC News, "Russia's Trade Ties with Europe," March 4, 2014, http://www.bbc.com/news/world-europe-26436291.

7 Jonathan Marcus, "What will be the impact of the EU ban on Iranian oil?," BBC News, January 23, 2012, http://www.bbc.com/news/world-europe-16678342.

8 Zachary Laub, "International Sanctions on Iran," Council on Foreign Relations, July 15, 2015, http://www.cfr.org/iran/international-sanctions-iran/p20258.

9 Adam J. Szubin, "No Safe Port for IRISL," Treasury Notes Blog, U.S. Department of the Treasury, October 27, 2011, https://www.treasury.gov/connect/blog/Pages/No-Safe-Port-for-IRISL.aspx.

10 Henry Farrel, "Russia is hinting at a new Cold War over SWIFT. So what is SWIFT?," *Washington Post*, January 28, 2015, https://www.washingtonpost.com/blogs/monkey-cage/wp/2015/01/28/russia-is-hinting-at-a-new-cold-war-over-swift-so-whats-swift/.

11 Armin Rosen, "Iran scored a major under-the-radar economic victory in the Nuclear Deal," *Business Insider*, July 22, 2015, http://www.businessinsider.com/iran-deal-swift-banking-system-2015-7.

Concluding TTIP should not mean neglecting or abandoning the WTO. TTIP (and TPP) could well revive momentum for productive work at the WTO to extend the work agenda to new areas and help both new and higher norms and standards for multilateral work. Europe and the United States should encourage constructive and forward-looking work at the WTO, but with the recognition that successful implementation of a TTIP agreement will likely help generate beneficial momentum at the WTO in Geneva.

NUMBER 9. SET INTERNATIONAL BEST PRACTICES

More broadly, as former World Bank President Robert Zoellick has long championed, competitive liberalization is a way to move the trading system and other key partners not party to a new agreement in the direction of the norms set in progressive agreements, by setting standards that others may seek to mirror.[13] China will likely see TTIP

13 Robert Zoellick, "The New Global Trade Agenda," speech delivered at the Peterson Institute for International Economics, Washington DC, November 2, 2015, http://www.iie.com/events/event_detail.cfm?EventID=414.

for what it is—not something aimed at harming or excluding China, but an agreement between two of its major trading partners laying out the expected rules of the game. The same will be true for other emerging market countries, with the added twist for Russia that TTIP will signal that Europe and the United States stand together on trade, as well as on values, security, and politics. And the other side of the argument is true, too—not filling the space with agreed-upon norms based on high standards and the rule of law leaves that space free for someone else to write the rules and define the norms.

NUMBER 10. BOLSTER TIES WITH CLOSE TRANSATLANTIC PARTNERS

TTIP should be open to participation from the United States' and European Union's closest trading and investment partners: Mexico and Canada in North America, the EFTA countries in Europe, and perhaps Turkey. From a North Atlantic perspective, it makes much more sense to have an integrated and coordinated accord across the Atlantic, rather than to manage separate EU agreements with Canada, Mexico, and the United States.

From a US perspective, it also makes much more sense to incorporate the highly integrated value and production chains in North America in a new transatlantic accord, as TPP seeks to do. For example, Mexico is the United States' second-largest export market, and the US content of exports from Mexico back to the US is by far the highest US content of any trading partner. Both facts underscore the value of including Mexico in a TTIP accord. Similarly, the impressive amount of EU investment in Mexico aimed at the US market adds to the case for its inclusion. Additionally, arguments can be made about the benefits of including the second-largest US trading partner, Canada, which recently concluded a trade agreement with the EU.

However, both EU and American negotiators argue there are so many complicated issues to sort through between the United States and the EU that it would be much harder to have Mexico, Canada, or others at the table right now. This line of reasoning makes sense. The way ahead may be to agree to have TTIP "open" to Mexico, Canada, and others to join later in the process or to have subsequent negotiations about integrating the three transatlantic trade and investment treaties. EU and US officials should be clear on TTIP's openness to adding these partners, however. In any case, these close partners should be regularly informed of TTIP progress and their views sought.

ADDRESSING THE RED FLAGS

There is no doubt that the TTIP negotiators have plenty of challenges to overcome. Just identifying potential landing zones for final agreement is daunting, given the various sectors that may be addressed. Agriculture, for example, has long been an acrimonious topic between the United States and the EU on a range of issues from subsidies and market access to human, animal, and plant health issues; geographic indicators; and, of course, genetically modified crops.[14]

Plus, when you are talking about regulations and how much "precaution" to exert in certain areas, you cannot make trade-offs between areas as trade negotiators can do with tariff rates, for example. Rather, negotiators just have to work with regulators to find solutions and ways forward in particular sectors of shared interest. Probably the most promising areas for initial progress are those where there is already very sizable transatlantic trade, such as in automobiles, and industry participants can help identify relatively low-hanging fruit.

It is going to take substantial creativity and ingenuity to get through the cluster of negotiating issues, and substantial public diplomacy skill to address the phalanx of concerned groups that are already raising a chorus of concerns and objections. For example, the Pew Research Center released a survey taken in late 2015 showing a substantial drop in support in Germany for TTIP from 2014 to 2015, with only 41 percent (down from 55 percent previously) saying TTIP is a good thing in 2015.[15] The main concern was not job loss, as is evident among the Americans, but that TTIP could result in lower safety and environmental standards.[16] Thus, moving forward with TTIP will require policymakers to take on the red-flag issues with the public in a concerted manner, even as they are trying to negotiate approaches to the issues.

> Moving forward with TTIP will require policymakers to take on the red-flag issues with the public in a concerted manner.

LOWER STANDARDS

One of the consistently raised concerns is that the negotiations are really about lowering standards to benefit powerful commercial interests at the cost of consumers' health and environmental safety. These concerns show up in negotiations about regulatory areas and what might be agreed upon for investor-state dispute settlement mechanisms. They also reflect the inherent difficulty of defining acceptable risk when talking about health, safety, and protection issues. The negotiators need to regularly explain that the goal is to reduce unnecessary duplication of effort and inefficiencies, while producing better and more effective science-based regulation on both sides of the Atlantic. They need to make clear in their words and with the mechanisms they explore, that any new processes will not be at the expense of the consumer or the environment.

Much of the concern expressed on both sides of the Atlantic can be addressed by making better known what has happened historically in the United States and the EU regarding regulation and investor-state disputes (see table 3).

The reality can help make clear that concerns about "bad" outcomes resulting from efforts to find common approaches to both regulation and standards, as well as investor-state dispute settlement processes, are overblown. For example, looking at each side's approach to regulation will likely reveal that the United States and EU each surpass the other in some areas of regulation and that together, the two systems represent many global best practices.

14 Hamilton and Quinlan, *The Transatlantic Economy 2015*, p. 8; Tim Josling and Stefan Tangermann, Agriculture, Food, and TTIP: Possibilities and Pitfalls, Centre for European Policy Studies, December 19, 2014, https://www.ceps.eu/publications/agriculture-food-and-ttip-possibilities-and-pitfalls; Hamilton and Pelkmans, eds., *Rule-Makers or Rule-Takers?* p. 18.

15 Pew Research Center, "Germany and the United States: Reliable Allies," Pew Research Center, May 7, 2015, http://www.pewglobal.org/2015/05/07/germany-and-the-united-states-reliable-allies/.

16 Bruce Stokes, "Americans' Views on Trade, TTP & TTIP," Pew Research Center, October 7, 2015, https://wita.org/wp-content/uploads/2015/10/Bruce-Stokes-Politics-in-Trade-10.7.15.pdf.

Table 3. Investor-State Disputes since 2000

	Number of Disputes	Decided in Favor of State	Decided in Favor of Investor	Settled	Pending	Other*
EU - EU	8	37.5%	25.0%	12.5%	12.5%	12.5%
US - EU	124	21.8%	7.3%	8.0%	54.8%	7.3%
World	653	23.3%	15.5%	16.2%	37.4%	7.6%

Source: Investment Dispute Settlement Navigator, United Nations Conference on Trade and Development
*Includes disputes decided in favor of neither party (liability found but no damages awarded) and discontinued disputes.

GLOBAL BEST PRACTICES

In a study, Notre Europe analyzed whether the United States or the EU was more precautionary in its regulatory approach. The researchers looked at a random sample of one hundred risks. It found that the EU was more precautionary than the United States in thirty-one cases, the United States was more precautionary in thirty-six cases, and the two were similarly precautionary in twenty-one cases.[17] The recent revelations about Volkswagen's deceptive emissions measurements should be an educational tool for European publics in this area: The deception was first revealed and the company was first sanctioned in the United States.

Nevertheless, it will take a concerted effort by authorities on both sides of the Atlantic to make these points well-known. It is unlikely that they can convince all of the agreement's opponents, and the final set of arguments cannot be made until the agreement has been finalized, but the education effort cannot wait until then to start. At the same time that the negotiators must address the critics, they will need to keep hope alive among those supporting a TTIP accord by making progress and reporting on that progress.

17 J. Wiener, M. Rogers, J. Hammitt, and P. Sand, eds., *The Reality of Precaution: Comparing Risk Regulation in the US and Europe*, Notre Europe-Jacques Delors Institute, July 18, 2014, http://www.notre-europe.eu/media/precautionprincipleuseu-fabry-garbasso-ne-jdi-july14.pdf?pdf=ok; Stephen Woolcock, Barbara Holzer, and Petros Kusmu, "The Transatlantic Trade and Investment Partnership - Challenges and Opportunities for Consumer Protection-," Centre for European Policy Studies, July 29, 2015, https://www.ceps.eu/publications/transatlantic-trade-and-investment-partnership-challenges-and-opportunities-consumer ; and Hamilton and Pelkmans, eds., *Rule-Makers or Rule-Takers?*, chapter 7.

LOWERING OR RAISING COSTS

A related anti-TTIP argument is that rather than lowering costs, TTIP will raise them. These concerns are aimed at the pharmaceutical sector in particular.[18] The argument is that the US goal in TTIP is to increase patent protection for large pharmaceutical companies, thus delaying entry of generic producers into the market and substantially increasing the costs of drugs to the public.

There is no doubt that a balance will need to be struck between protecting and encouraging innovation—which often requires years of research, investment, and testing before a new drug comes to market—and the need for public health systems to provide cost-effective medicines that meet consumer and public budget constraints. Along the way, all parties seeking agreement will need to acknowledge the trade-offs and encourage an open discussion of the best ways to find a proper balance. The TPP negotiators seem to have hammered out a middle ground on this set of issues, and there is no reason that the United States and the EU cannot do the same. And, once again, these themes need to be addressed well in public messaging.

A VARIETY OF PATHS TO GOOD STANDARDS

An exciting opportunity for TTIP is the design of a series of mechanisms and institutions that will make TTIP a "living" treaty whereby regulators, officials, and members of the interested public can continue to adjust, adapt, and improve regulations as TTIP is implemented, while still preserving the regulatory sovereignty of both EU and US authorities.[19]

18 Dean Baker, "TTIP: It's Not about Trade," Atlantic Community, February 12, 2014, http://www.atlantic-community.org/-/ttip-it-s-not-about-trade.

19 Hamilton and Pelkmans, eds., *Rule-Maker or Rule-Takers?*, op. cit.

BOX 3: ELECTION CYCLES AND TTIP: WINDOW(S) OF OPPORTUNITY FOR TTIP by Marie Kasperek[1]

With the twelfth round of TTIP negotiations having just concluded, the question is whether Europe and the United States will be able to make use of the (very short) window of opportunity to reach an agreement before the United States presidential election in November 2016, when the Obama Administration leaves office. And of course, the increased criticism of trade in the US presidential campaign rhetoric will also be a factor in the ability to seize this opportunity.

Negotiators will have to work quickly, because the window of opportunity after a new US administration takes office in January 2017 is briefer than it seems due to elections in Europe. The presidential elections in France (April-May) and the national elections in Germany (September) will make reaching an agreement on TTIP very difficult politically until late 2017.

After the new US President is sworn in on January 21, the next few months will be spent bringing senior officials into the new administration. Until all the senior positions are filled, it will be hard to move ahead with TTIP negotiations or ratification. In parallel, as noted, the German and the French elections will likely slow down progress on TTIP on the European side. Even though the French and German elections are not the only elections of European member states in 2017, they stand out for three reasons: they take place in two of the biggest member states of the European Union; both countries are the founding members of the European Union; and their political leaders, as well as their electorates, have been among the most outspoken during TTIP negotiations.

There also seems to be an increasing disparity in opinion between the government and the public in both countries, with much of the public in doubt about TTIP. German Chancellor Angela Merkel has been a steadfast proponent of TTIP, highlighting its importance for Germany as an export nation, while German public support of TTIP at 39 percent, is below the European average of 58 percent.[2] During a visit to the United States in 2014, French President François Hollande copublished an op-ed with President Obama, emphasizing the economic benefits of TTIP for both sides of the Atlantic as well as its importance for restoring economic growth globally.[3] Meanwhile, polls suggest that the public in France is divided, with only 50 percent of French in favor of TTIP.[4]

While the brunt of the criticism in both countries seems based on misinformation and myths surrounding the content and scope of the final agreement, few in the German and French political leadership would likely want to see TTIP become a major campaign issue, for fear of driving the electorate into the arms of opposition parties or populists like Marine Le Pen's Front National in France, or Germany's Alternative für Deutschland.

Consequently, the chances for concluding TTIP in early 2017 seem small, and the odds difficult. In February and March 2017, the months leading up to the French elections, none of the candidates will want high-profile news on TTIP. After the French elections in May, Germany will slowly go into election mode for September, which will be followed by a period of getting the new administration organized.

The chances for negotiating TTIP after the elections in Germany and France will depend on two factors: the administrations in charge and their ability to mobilize public opinion in favor of TTIP. Growing criticism of Angela Merkel's migration policy currently threatens the chances for her fourth candidacy as German Chancellor in 2017. The migration crisis seems to have already depleted her political capital, which will make it difficult to garner support among the populace for unpopular measures in other areas. This could become a real problem for TTIP.

1 Marie Kasperek is Assistant Director at the Atlantic Council's Global Business and Economics Program.

2 Laura Puccio, "EU-US Negotiations on TTIP - A Survey of Current Issues-," European Parliamentary Research Service, June 2015, http://www.europarl.europa.eu/RegData/etudes/IDAN/2015/559502/EPRS_IDA(2015)559502_EN.pdf.

3 Barack Obama and François Hollande, "France and the U.S. enjoy a renewed alliance," *Washington Post*, February 10, 2014, https://www.washingtonpost.com/opinions/obama-and-hollande-france-and-the-us-enjoy-a-renewed-alliance/2014/02/09/039ffd34-91af-11e3-b46a-5a3d0d2130da_story.html.

4 Laura Puccio, *EU-US Negotiations on TTIP*, op. cit.

In France, however, the outspoken TTIP critic Marine Le Pen might become a real challenge for Hollande. Le Pen might be able to use divided public opinion to mobilize the considerable potential for anti-Americanism in France and raise fears that TTIP would only further dampen France's economic prospects.

And the United Kingdom? According to the most recent poll by Eurobarometer, the majority (65 percent) of the United Kingdom is in favor of TTIP, with less than 20 percent outright against an agreement.[5] Meanwhile, Britain is asking the European Union to undertake reforms, some of which could require a treaty change that would necessitate unanimous approval of all twenty-eight EU member states. Forty-five percent of British exports currently go to other European member states.[6] Opting out of the European Union would mean that the UK would have to renegotiate export tariffs and economic rules with a partner, with which it had just cut ties. The alternative, to refocus its attention to its top exporting partner and traditional ally, the United States, was heavily compromised in late October 2015, when US Trade Representative Michael Froman announced that the United States "is not in the market" for a separate free trade deal with the United Kingdom and warned the UK of major blows to its economy if it decided to leave the European Union.[7] In this case, one could argue that TTIP will play an important, if perhaps low-profile, role in the looming "Brexit" debate. Making considerable progress on the TTIP negotiations by the referendum would make it much harder for the United Kingdom to leave the union—unless it would be willing to face even more serious consequences to its economy, as well as to its strategic relationship with both the European Union and the United States.

In the more distant future, both the US midterm elections (2018) and the election of a new European Commission (2019) could cause the United States and the EU to shift their focus to internal matters, which would disrupt the negotiation process. How so? From the last European Parliament elections in May 2014, to the appointment of a new President of the European Commission by the European Council, to selecting and appointing the team of Commissioners, it took until the end of October 2014 for the new European Commission to be up and running.

How does this impact TTIP negotiations? In 2013, the EU member states gave the European Commission a mandate to negotiate TTIP on their behalf. Although the final agreement will have to be voted on by national parliaments as well as by the European Parliament, the European Commission will be responsible to head the negotiations from start to finish—meaning that if an agreement has not been reached by spring 2019, the next window of opportunity to do so would be at the end of 2019.

By and large, the election cycles in Europe and the United States seem to point to two likely scenarios for concluding TTIP: Governments either accelerate the pace of negotiations and rush to have a rough agreement by December 2016, or otherwise plan not to have TTIP done before late 2017. The second scenario would enable the United States and EU to negotiate in more detail and use the time to build public support. However, there will always be the risk that new administrations in the United States, Germany, and France will not push TTIP with the same priority as their predecessors.

In any case, without widespread public support, it would be hard for TTIP to successfully pass the legislative bodies of either the European Union or the United States. Regardless of windows of opportunities opening or closing, the focus of the administrations on both sides of the Atlantic should be to engage in a constructive and engaging communication strategy with the public to eradicate myths and fears and show them the true economic and strategic benefits of a fair and comprehensive TTIP.

5 Borderlex, "Eurobarometer: Who is for and Against TTIP in Europe," January 6, 2015, http://www.borderlex.eu/eurobarometer-whos-ttip-eu/.

6 Dominic Webb and Matthew Keep, "In brief: UK-EU Economic Relations," House of Commons Library, January 19, 2016, http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06091.

7 Matthew Holehouse, "Major Blow for Brexit Campaign as US rules out UK-only Trade Deal," *Telegraph,* October 29, 2015, http://www.telegraph.co.uk/news/worldnews/europe/eu/11962277/Major-blow-for-Brexit-campaign-as-US-rules-out-UK-only-trade-deal.html.

Cecilia Malmström, European Commissioner for Trade, responsible for the EU's Common Commercial Policy. *Photo credit:* EU2016 NL/Flickr.

Negotiators and regulators need to explore a variety of options involving the harmonization of standards, recognition of effective equivalence of different standards, mutual recognition of different approaches, intensified exchange of data and of testing, analytic procedures, and more. There will likely be a variety of solutions proposed for different regulatory areas, and there will be an abundance of helpful and less-than-helpful commentary. But this promise will need to be repeatedly emphasized: TTIP will include a set of mechanisms and institutions that provide better regulation, more safety and protection based on the best science and deliberation, less redundancy, and increased efficiency—the best rules at the lowest cost, and new models for other countries to emulate.

Successfully passing along this message means governments and senior officials must consistently discuss the issues with the public. Regulation-making is very technical and inherently challenging to explain. Regulators tend to be very turf-conscious and believe strongly in the way that they are doing things. Thus, hammering out agreements will not be easy and will take time. And, indeed, as mentioned earlier, the agreements in the regulatory area may need to evolve over time. Regulation- and standard-setting on both sides of the Atlantic evolve frequently, as with any transatlantic collaboration. Explaining new transatlantic cooperation in a way that reassures the relevant publics that their concerns will be heard and gives them the sense that they have a say in the process will be challenging. But it is doable.

TRANSPARENCY AND DEMOCRACY

A major set of concerns about TTIP relates to the possible lack of transparency in the negotiation process and in what elements will be agreed upon, and the weakening of democratic accountability that may result. These criticisms are not limited to TTIP but are expressed about trade negotiations in general; for example, the TPP has been criticized for these reasons as well. They also reflect a broader skepticism about big and distant government, with frequent sharp attacks made on government processes more broadly, whether it is Washington or Brussels that is being lambasted. And in the case of assessing risk, the challenge remains that many assess it quite differently and won't necessarily accept "the science." Nevertheless, these red flags will need to be addressed on a consistent basis through briefings and coordinated outreach during the negotiations.

To counter these criticisms, civil society and the private sector must be given opportunities to better understand the key components and challenges of the negotiations. The European Commission has created and implemented a new approach to maintaining transparency in these negotiations, so that when the negotiations are finished the agreement will be made publicly available before obligations and commitments take effect. These steps should help address the concerns that have been raised.

INVESTOR-STATE DISPUTE SETTLEMENT

As mentioned earlier, many opponents of TTIP assert that the agreement will give private companies the special and unfair ability to challenge local laws and regulations. The EU Trade Commissioner has presented a proposal for setting up a special court to hear such cases.[20] Others have suggested dropping the provision as US and EU legal systems are solid enough to handle any such cases. As described earlier, there are good reasons for having a dispute settlement provision in the agreement even if the United States and EU do not use it, because both will seek to have it in agreements that they maintain or negotiate with other trading partners. Clearly, any proposed solution on which the negotiators agree will need to address the needs of investors and the critics' concern that the powers of a regulating government or authority will not be respected.[21] Again, part of the public education outreach efforts should focus on putting this issue in proper context. As the Peterson Institute's Gary Hufbauer notes, "ISDS [Investment Settlement Dispute Settlement] claims cover a tiny fraction of world investment, and awards are even smaller. The main purpose of ISDS is to establish standards for good investment behavior, and these standards are voluntarily observed by countries—in their own self-interest—99.9 percent of the time."[22]

LEAST-DEVELOPED COUNTRIES

How the United States and the EU offer trade benefits to the least-developed countries (LDCs) with a successful TTIP is an open and crucial question. Big advances in regulatory convergence and approaches to "precaution" will be far out of reach for many LDCs to implement, and it will be very hard to give LDCs any preference in areas dealing with safety and protection, because citizens of the EU or the United States will not want to accept products that do not meet rigorous standards. Thus, the EU and the United States should explore how the transatlantic bloc might better coordinate existing preferential programs to benefit the least developed.[23]

20 Cecilia Malmström, "Proposing an Investor Court System," European Commission blog, September 16, 2015, https://ec.europa.eu/commission/2014-2019/malmstrom/blog/proposing-investment-court-system_en.

21 European Commission, "Trade for All: European Commission Presents New Trade and Investment Strategy," October 14, 2015, http://europa.eu/rapid/press-release_IP-15-5806_en.htm; Simon Lester, "One Year into the TTIP Negotiations: Getting to Yes," Cato Institute, September 29, 2014, http://www.cato.org/publications/free-trade-bulletin/one-year-ttip-negotiations-getting-yes.

22 Gary Hufbauer, February 3, personal correspondence with Amb. Anthony Wayne.

23 See Daniel Hamilton, "TTIP's Geostrategic Implications," Testimony delivered before the US House Committee on Foreign Affairs, March 17, 2015; and Eveline Herfkens, *TTIP and sub-Saharan Africa: A Proposal to Harmonize EU and US Preferences*, in Hamilton, ed., *The Geopolitics of TTIP*, op. cit., chapter 11.

NO TTIP EQUALS A STRATEGIC LOSS FOR EUROPE AND THE UNITED STATES

What if the critics and politics on either side of the Atlantic stymie the TTIP negotiations or result in greatly reduced ambition?

First, both the United States and Europe would lose an opportunity to boost their economies. A range of commentators and experts warn that tepid or no growth could become an even longer-term trend on both sides of the Atlantic. Governments and economic actors are looking for ways to break out of this cycle. Monetary institutions seem to have few additional tools to deploy should economies again start to falter. Productivity has remained stubbornly low. Why would the EU and United States not try to press ahead with an ambitious agreement that could add many billions of dollars and euros in growth by increasing efficiencies in their biggest shared market? Without TTIP, both Europe and the United States would miss the opportunity to generate jobs and lower costs for consumers and businesses, at a time when innovation is needed in how business is conducted. The EU and the United States should try to achieve as much of a boost as they can through an ambitious TTIP.

> Why would the EU and United States not try to press ahead with an ambitious agreement that could add many billions of dollars and euros in growth?

Second, both the United States and the EU would forgo the opportunity to help shape global rules and practices at a time when the global trading and investment system needs a shot in the arm. The United States and its TPP partners are taking steps to help define higher standards and rules with the accord, but if the largest and wealthiest market in the world—the transatlantic marketplace—were to enter into the game with a new state-of-the-art agreement, the impact would be substantial for the WTO and for other actors in the world system, including China. The absence of such an accord could leave standard setting to others who do not share the same commitment that the United States and the EU have to human rights, democracy, labor rights, the environment, health, and good governance. Why yield that space and opportunity to others?

Third, failure to reach agreement would be a serious missed opportunity for the EU. At a time when the EU's central institutions are being criticized and are receiving low approval ratings, TTIP is an opportunity to reinforce the value of a Europe-wide negotiation with its major trade and investment partner. It is also an opportunity to remind its US partners that the EU matters and that it is not just one more European entity at the table. Rather, a successful negotiation will show that the European Commission is the capable representative of a powerful economic and commercial force and partner. Absent this agreement, many in the United States will continue to look at Europe largely through the eyes of its NATO collaboration, by working with a few EU member states on global crises and problem sets. The corollary to the last point is that the momentum for freer trade and investment, and for setting new standards will remain in the Pacific Basin, absent a successful TTIP. TPP has taken important steps to define new model agreements. Do Europe, its member states, and even those protesting TTIP want the EU sidelined in this work?

CONCLUSION

TTIP holds the promise to boost the transatlantic economy and give new strength to the EU-US partnership. The vigor it can give to this partnership will resonate in the international trading system and with the two economies' other economic partners. It can send a message to Europe that the US commitment to the relationship is much more than NATO's, and it can remind the US public of the importance of the transatlantic economic relationship for US prosperity.

These messages should be magnified as TTIP goes into effect and generates more economic growth and opportunities for job creation. Just agreeing to a TTIP accord should send clear signals that the two most sophisticated regulatory systems in the world are committed to better, more effective, and less burdensome rules that still meet the high standards that European and American publics want. And all of this will be done on the foundation of shared values of democratic systems, and in turn, should remind EU and US publics that those values are shared across the Atlantic.

The messages from this agreement can serve as a wakeup call to many around the world that important progress can be made through agreements between major trading partners. TTIP should complement TPP. And, with TTP moving to conclusion, now is the time to energize the TTIP negotiations and to reiterate EU and US commitments to an ambitious set of outcomes.

The innovative solutions and mechanisms that emerge from TTIP can energize others who trade with the EU and United States to seek similar high standards in other agreements and in a reenergized WTO process. For a number of partners, TTIP may well spur progress out of concern that they will be left behind if they do not seek or participate in similar-quality agreements. And, many will see the message that lower-quality agreements will bring less prosperity and growth. For those in the world who question the transatlantic approach to the environment, health, labor, protection, and even human rights, and the values shared across the Atlantic, TTIP will remind them of the collective clout of the transatlantic marketplace.

A TTIP agreement should bolster US-European confidence and reinforce their ability to act cooperatively in other areas around the world. A relationship with active and powerful economic and security pillars is much stronger than one that largely relies on security alone. Third parties will perceive that, as will EU and US publics.

If successful, TTIP will likely also be more of a "living" agreement than previous free trade agreements. It could result in a series of ongoing dialogues about regulatory and standards issues, based on how the regulatory landscape and the science on various issues evolves on each side of the Atlantic. These ongoing dialogues could produce a series of agreements building from the basic TTIP accord, to the benefit of consumers, citizens, and businesses across the transatlantic marketplace. This potential for innovation and evolution is also what makes TTIP both so difficult to achieve and potentially so controversial. Different groups already argue that protections for citizens or "closer-to-home" governance mechanisms would be weakened or undermined in a TTIP agreement and by the use of nontransparent and nondemocratic mechanisms agreed to in the final treaty.

The challenges of crafting a successful TTIP are immense. The substance of a new-generation agreement will be very difficult to forge. Supporters of the agreement are impatient for the negotiators to demonstrate progress. Critics are mobilizing on both sides of the Atlantic to block progress. We believe the negotiators should make an all out effort to get all or almost all of a text agreed by the end of 2016 if not earlier, even recognizing that a new US administration will take its own look. An agreed text will demonstrate momentum in the TTIP process. More broadly, supporters in and out of government should highlight that the costs of failure and lack of ambition, however, would be great—a serious body blow to transatlantic cooperation, a lost opportunity for both economies, and a setback for the EU as an international actor and partner. Indeed, the boost from an energized and renovated transatlantic marketplace and from a revitalized partnership across the Atlantic is a prize well worth the hard work ahead.

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