MAPI

Stephen V. Gold
President and CEO

April 22, 2013

Office of the United States Trade Representative
500 E Street, SW
Washington, DC 20435

Re: Transatlantic Trade and Investment Partnership Comments

Manufacturers Alliance for Productivity and Innovation (MAPI) is pleased to provide the attached comments concerning the proposed Transatlantic Trade and Investment Agreement (TTIA). In a recently published report produced by MAPI in partnership with the Aspen Institute ("The Manufacturing Resurgence: What It Could Mean for the U.S. Economy," March 2013), we explored the various drivers that could revive the American factory sector and propel it into a true renaissance period. Using econometric modeling, we determined that for U.S. manufacturing were to achieve such a resurgence an increase in exports and decrease in imports will be necessary. The proposed agreement with the European Union, which remains one of our top trading partners despite its ongoing economic stagnation, will provide the economic and legal framework for such a shift in the balance of trade.

The attached report, titled "A U.S.-EU Trade Agreement: Far-Reaching Opportunities for U.S. Economic and Foreign Policy Interests with Technology-Intensive Manufacturing at Center Stage," by MAPI Senior Advisor Ernest H. Preeg, demonstrates how this agreement can serve as a template for a broader, plurilateral free trade agreement within the World Trade Organization. It further recommends that the agreement be linked to a policy commitment to act jointly to restore market-based exchange rates so as to avoid the adverse trade impact from currency manipulation by others. Despite the obvious challenges in achieving such a far-reaching agreement, and the necessity for high-level, forward-looking leadership on both sides of the Atlantic, the benefits from the TTIP would far outweigh the costs.

With regards,

Stephen V. Gold

April 2013

A U.S.-EU Free Trade Agreement: Far-Reaching Opportunities for U.S. Economic and Foreign Policy Interests with Technology-Intensive Manufacturing at Center Stage

By Ernest H. Preeg

Introduction

A U.S.-EU free trade agreement (FTA) has been discussed, on and off, for half a century, and official negotiations will now finally begin. Its importance for the United States has never been greater. A comprehensive free trade and investment agreement across the Atlantic, officially labeled a Transatlantic Trade and Investment Partnership, or TTIP, will serve three important, connected U.S. interests:

First, the United States and the EU face a serious competitiveness challenge from China and other newly industrialized economies, centered on the technology-intensive manufacturing sector, while the TTIP gains from trade and improved competitiveness in manufactures and related business services will constitute the dominant substantive result of a U.S.-EU agreement;

Second, the TTIP can provide the template for restoring the rules-based multilateral economic system that has been in life-threatening decline over the past decade. The transatlantic agreement will likely include Canada, Mexico, and some additional European participants at an early point and should be open-ended for follow-on participation toward a plurilateral accord of broad geographic scope for international trade, investment, and trade-adjustment financial policies;

And third, the agreement will become a new cornerstone for U.S. foreign policy. It will consolidate the Atlantic partnership of information-age democracies in pursuing a wide range of international objectives related to democratization, economic reform, and basic human rights. In effect, it will tilt U.S. foreign policy back toward the Atlantic relationship for political-economic objectives while U.S. military commitments tilt more toward Asia.

This is the big picture of what a comprehensive TTIP can do. It will be an ambitious undertaking, with a number of difficult issues in play, and to succeed, it will require strong, forward-looking leadership on both sides of the Atlantic. Serious, in-depth discussion of what is at stake is the starting point, and this report attempts to stimulate such discussion through pointed and at times provocative commentary on the most important substantive components and decision issues.

The principal conclusions are:

- Technology-intensive manufacturing industry dominates U.S.-EU trade, with 80 percent of merchandise trade in manufactures and half of services trade in business services deeply linked to manufacturing;
- Negotiations in the agricultural and energy sectors will also involve trade liberalization related to far-reaching technological change;
- The negotiating agenda will consequently focus broadly on non-tariff barriers and regulatory policies that restrict trade and investment in technology-intensive industries;
- The TTIP will thus provide a comprehensive free trade template between the two most advanced high-tech economies for consolidation with other FTAs and transition back toward a multilateral trading system;

- In this context, the TTIP will be more important than the parallel Trans-Pacific Partnership (TPP) negotiations, which, with developing country participants such as Vietnam and Peru, will have to settle for a lower common denominator for regulatory policy reform and harmonization;
- TTIP participants, which should include at least Canada and Mexico at the outset, should link the TTIP agreement to a policy commitment to act jointly to restore market-based exchange rates so as to avoid the adverse trade impact from International Monetary Fund (IMF)-prohibited currency manipulation by others;
- And to succeed in these troubled economic times and with what will be an ambitious negotiating agenda, President Obama should select as his chief negotiator for the TTIP a person of political standing and international experience in order to provide high-level leadership in dealing with European counterparts and with both sides of the congressional aisle.

The presentation is in three parts. The first two parts follow from the first two interests introduced above: the favorable impact on U.S. trade competitiveness and the template role for restoring a multilateral rules-based trading system. The third part then brings together the various issues into a composite negotiating strategy. A concluding comment assesses the prospect for a successful agreement, which, at this point, is doubtful at best, but which could change for the better as the potential benefits are more fully understood.

U.S.-EU Trade Centers on the Technology-Intensive Manufacturing Sector

Estimates of the total gains from trade from a comprehensive U.S.-EU FTA are in the order of 0.5 to 1.0 percent of GDP for both parties. There has been little investigation, however, of how this breaks down by sector or industry, in large part because up-to-date data for U.S.-EU trade on an industry basis is not readily available. Figures for broad sectors of U.S.-EU trade are presented here, and are sufficient to demonstrate that the very large majority of U.S.-EU trade is in technology-intensive manufacturing industries, for which a TTIP can achieve significant gains from trade and investment and strengthen trade competitiveness with others, including China.

U.S. manufacturing is central to technological innovation and constitutes the core of defense industry. Three-quarters of civilian R&D expenditures and 90 percent of new patents come from the manufacturing sector. As for trade competitiveness with China, 75 percent of U.S. global merchandise exports are in manufactures, as are 95 percent of Chinese exports. The U.S. global deficit in manufactures increased from $326 billion in 2009 to $498 billion in 2012, or by 53 percent, while the Chinese surplus soared from $422 billion to $755 billion, or by 79 percent. Chinese manufactured exports, now predominantly in high-tech industries, were 31 percent larger than U.S. exports in 2009, 62 percent larger in 2012, and are on track to double U.S. exports by mid-decade.[1] In this disturbing context, a broader and more competitive U.S.-EU free market for manufactures will lower costs and stimulate a faster pace of technological innovation, with corresponding gains in U.S. international competitiveness.

Total U.S.-EU trade by broad sector is presented in Table 1 for 2010, the most recent year of comprehensive trade statistics from the World Trade Organization (WTO). There is first the distinction between merchandise and services trade, with merchandise accounting for 59 percent of U.S. exports and 72 percent of imports. Within the merchandise sector, manufactures dominate, with 78 percent of

[1] For a full account of U.S.-Chinese trade competition in manufactures, see Ernest H. Preeg, *The U.S. Trade Deficit in Manufactures and the Chinese Surplus Continued to Surge in 2012*, PA-119, MAPI, February 2013.

exports and 80 percent of imports. This compares with 5-6 percent each for agriculture and fuels. In other words, although EU protectionism for agriculture and U.S. export restrictions for fuels will be important and difficult negotiating issues for the TTIP, manufactures are about 15 times larger in trade terms than either of these sectors. Moreover, the $74.0 billion deficit in manufactures amounts to 85 percent of the $87.4 billion deficit in merchandise trade.

Table 1 – Total U.S.-EU Trade 2010 ($billions)

	U.S. Exports to the EU	U.S. Imports From the EU	Trade Balance
Merchandise	***239.6***	***327.0***	***-87.4***
Manufactures	188.0	262.0	-74.0
Agriculture	13.5	18.4	-4.9
Fuels	13.1	20.9	-7.8
Other	25.0	25.7	-0.7
Services	***169.1***	***125.6***	***+43.5***
Transportation	21.6	28.3	-6.7
Travel	28.6	22.4	+6.2
Other Commercial Services	118.9	74.9	+44.0
Total Trade	***408.7***	***452.6***	***-43.9***

Source(s): World Trade Organization, *International Trade Statistics 2012*

For trade in services, of the three broad sectors, transportation (maritime and airlines) and travel (tourism, students, business) are relatively small, together accounting for 30 percent of exports and 40 percent of imports, and in any event are not likely to be major problem areas for the TTIP negotiations. "Other commercial services" is the largest and most important sector for the negotiations. Based on global exports (the WTO does not provide detail on U.S.-EU trade), about 75 percent of other commercial services are business services, 20 percent are financial services, and the other 5 percent are construction and cultural/education services. Thus for all U.S.-EU services trade, based on the global proportions, 53 percent of U.S. exports are business services, deeply integrated with the manufacturing sector, as are 45 percent of imports. Also noteworthy is the $43.5 billion U.S. surplus in services trade, all of which is accounted for by the $44.9 billion surplus in other commercial services.

Table 2 extends the presentation of merchandise trade for the years 2009 to 2011, or since the global recession. Manufactures again dominate, in that the U.S. bilateral deficit with the EU for total merchandise trade increased by $39.4 billion, to $106.4 billion in 2011, which was more than fully accounted for by the $43.9 billion increase in the deficit for manufactures, to $99.0 billion. There was a much smaller decline of $5.1 billion in the deficit for fuels, while the U.S. deficit for agriculture, somewhat ironically in view of EU protection against U.S. farm exports, remained at about $5 billion.

Table 2 – U.S.-EU Merchandise Trade 2009-2011 ($billions)

	U.S. Exports to the EU	U.S. Imports From the EU	Trade Balance
Manufactures			
2009	173.8	228.9	-55.1
2010	188.0	262.0	-74.0
2011	201.0	300.0	-99
Agriculture			
2009	11.4	16.9	-5.5
2010	13.5	18.4	-4.9
2011	15.8	21.0	-5.2
Fuels			
2009	10.8	17.6	-6.8
2010	13.1	20.9	-7.8
2011	23.3	26.0	-2.7
Other			
2009	25.0	24.6	+0.4
2010	25.0	25.7	-0.7
2011	29.0	28.5	+0.5
Total Merchandise			
2009	221.0	288.0	-67.0
2010	239.6	327.0	-87.4
2011	269.1	375.5	-106.4

Source(s): World Trade Organization, *International Trade Statistics 2012*

The U.S. deficit in manufactures grew further in 2012, based on U.S. statistics, although with a slightly broader definition of manufactures than for the WTO figures in Tables 1 and 2. U.S. exports of manufactures to the EU in 2012 were $220 billion and imports were $332 billion, for a deficit of $112 billion. More than half of the deficit was with Germany, at $62 billion, compared with a small deficit of $9 billion with France and a small surplus of $5 billion with the United Kingdom.

Data for U.S.-EU trade in services are more limited than for merchandise trade; however, information about two important relationships for the TTIP negotiations is available. The first is that U.S. exports of business services, and the large trade surplus in particular, are concentrated in royalties and licensing fees for intellectual property. Based on U.S. statistics for 2011, U.S. services exports to the EU for royalties and licensing payments were $49 billion, while imports were only $12 billion, with a resulting surplus of $37 billion, or 84 percent of the $44 billion total surplus for other commercial services presented in Table 1.

The second important trade relationship for trade in services is the rapid growth since 2009 of business services exports by India and China. Table 3 presents global exports of other commercial services in 2011, of which, as noted earlier, 75 percent are business services, for the "Big Five" exporters, who together accounted for two-thirds of world exports of other commercial services. From 2009 to 2011, Indian exports grew by 54 percent, Chinese exports by 51 percent, U.S. exports by 20 percent, EU exports by 17 percent, and Japanese exports by a meager 11 percent. The table also presents exports of royalties and licensing fees, highlighting U.S. dominance in this area: $103.8 billion of U.S. exports, $49.0 billion of EU exports, and very small or negligible exports by the other three.

Table 3 – The Big Five Exporters of Other Commercial Services 2011 ($billions)

	Exports of Other Commercial Services	Of which Royalties and Licensing Fees	Percent Increase Other Commercial Services 09-11
EU*	480.9	49.0	+17
United States	352.3	103.8	+20
India	101.5	neg.	+54
China	98.3	0.8	+51
Japan	93.1	2.9	+11
Big Five	1,126.1	156.5	+23
World	1,690.1	225.2	+29

Source(s): World Trade Organization, *International Trade Statistics 2012*
*Extra-EU (i.e., trade with non-members)

Thus, by 2011, India and China had passed Japan into third and fourth place exporters of other commercial services, behind the EU and the United States. Indian and Chinese exports together equated to 57 percent of U.S. exports of other commercial services and, excluding royalties and licensing fees, 80 percent of U.S. exports. This rapid rise in global market share by India and China for technology-intensive business and financial services raises the question of whether their rapid growth in 2009-2011 continued in 2012. When the WTO international trade figures for 2012 come out in October, I plan a MAPI report on the rapid structural and geographic changes under way for trade in other commercial services, as broken down by sector by the WTO.

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These are the basic facts about recent trends in U.S.-EU trade, which leads to the question of their implications for the course of the TTIP negotiations. The broadest implication, of course, is the priority for non-tariff barriers and regulatory policies restricting trade in technology-intensive industries. Useful preliminary work has been done on the negotiating agenda, with this orientation. The U.S.-EU High Level Working Group on Jobs and Growth (HLWG), in its February 2013 final report, outlines a comprehensive agenda, highlighting regulatory issues, although without details as to what the final results might be. The European Commission commissioned a more detailed study, released in March, by the Centre for Economic Policy Research in London.[2]

Jeffrey Schott and Cathleen Cimino go a step further in presenting the results of the U.S. and EU FTAs with South Korea for 13 key provisions, and from this recommending how the TTIP could go further. It is noteworthy that three of these provisions are intellectual property rights, copyright

[2] *Final Report of the U.S.-EU High Level Working Group on Jobs and Growth*, Office of the United States Trade Representative, February 11, 2013, www.ustr.gov/about-us/press-office/reports-and-publications/2013/final-report-us-eu-hlwg; and "Independent study outlines benefits of EU-US trade agreement," Europa press release, March 12, 2013, http://europa.eu/rapid/press-release_memo-13-211_en.htm.

protection, and patent protection, of particular interest to the United States in view of the large U.S. trade surplus in royalties and license fees for intellectual property.[3]

No further issue-specific elaboration is provided here, although commentary on the negotiating strategies for the agricultural and energy sectors, as related to technological change, is provided in the final section below.

A Template for Restoring the Rules-Based Multilateral System

The multilateral trade and financial system created at Bretton Woods in 1944 has been in serious decline over the past decade, and could effectively fall on current policy course, while a comprehensive TTIP could be the catalyst, or template, for restoring a balanced, non-discriminatory multilateral system for international trade, investment, and trade adjustment financial policies.[4]

For trade policy, almost 50 years and 8 rounds of General Agreement on Tariffs and Trade (GATT) negotiations to reduce trade barriers on a multilateral, most-favored-nation basis ended with the Uruguay Round agreement in 1993, while the WTO Doha Round has been in stalemate for 12 years. In parallel, bilateral and regional free trade agreements have proliferated in all regions, to the point where most-favored-nation rates in WTO schedules have largely become least-favored-nation rates in practice.

The recent preferential course is not all bad, however, since trade barriers continue to be lowered, albeit on a discriminatory basis. Even China, the least engaged among major trading nations in FTAs, agreed with Japan and South Korea in 2011 to negotiate a trilateral East Asian FTA, and Chinese FTA negotiations with South Korea are well advanced.

The challenge for restoring a predominantly multilateral, non-discriminatory trading system is thus to consolidate the various FTAs into a plurilateral FTA within the WTO, open for others to join. If such a plurilateral agreement were to include the large majority of trade, while providing preferential free access for least developed countries, the multilateral system would effectively be restored, and on a free trade basis.

In this context, the TTIP could be the catalyst and template for building such a plurilateral agreement. The United States and EU together would constitute the single largest market, although not as large as sometimes reported in the press. Two-thirds of total EU trade is among members, not subject to WTO obligations or dispute procedures, and in trade policy terms, is comparable to trade between New York and New Jersey. Based on extra-EU trade, i.e., excluding trade among members, the United States and the EU accounted for 25 percent of global merchandise exports and 30 percent of imports in 2011. By comparison, the three East Asians—China, Japan, and South Korea—accounted for 23 percent of exports and 21 percent of imports.

As for a broadening of participation through an open-ended U.S.-EU agreement, initial participation by Canada, Mexico, Switzerland, and Norway would add 9 percent to the global trade coverage. South Korea would be a natural and strategically important participant, since it already has FTAs with the EU and the United States and FTA negotiations under way with China. A follow-on consolidation of the transatlantic and transpacific FTAs, with a suitable name change, would be a decisive step toward a broadly based plurilateral FTA. The major additional nations for the transition to

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[3] Jeffrey J. Schott and Cathleen Cimino, "Crafting a Transatlantic Trade and Investment Partnership: What Can Be Done," Peterson Institute for International Economics, Policy Brief Number PB13-8, March 2013, www.iie.com/publications/pb/pb13-8.pdf.

[4] This section summarizes highlights from my study, *The Decline and Fall of Bretton Woods?* (MAPI, October 2012), which proposed a two-stage strategy for restoring the multilateral trading system. Stage one was U.S. FTAs with the EU, Japan, and India, and stage two was consolidation of all FTAs within a plurilateral FTA. The United States is now engaged in negotiating FTAs with the EU and Japan. Wake up, New Delhi!

a dominant plurilateral FTA within the WTO would include China, India, and Brazil, and their interest in being inside rather than outside the broadening plurilateral agreement should grow over time.

The decline of the multilateral economic system, however, applies to both the trade and financial systems, and the two are linked in that exchange rate policies can have serious adverse impact on trade balances. It is therefore proposed here that the TTIP agreement, including an open-ended invitation for others to join, should be linked to a policy commitment to abide by IMF and WTO obligations for exchange rate policies related to trade adjustment, and to the IMF prohibition on currency manipulation in particular.

The abandonment of the market-based exchange rate system since the 1970s has, in fact, been the most damaging cause for the decline of the multilateral economic system over the past decade. IMF Article IV states that members should not manipulate their currencies to gain an unfair competitive advantage in trade, with currency manipulation defined as protracted, large-scale purchases of foreign exchange by the central bank, which automatically result in an exchange rate lower than a market-based rate. Mercantilism is defined as a strategy to achieve a surplus of exports over imports, and the most powerful mercantilist policy instrument is currency manipulation as defined by IMF Article IV. A currency held 30 percent below its market-based value equates to an across-the-board 30 percent surtax on imports and a 30 percent subsidy for exports.

Over the past 10 years, the Chinese Central Bank has purchased $3 trillion of foreign exchange, far beyond precedent for protracted, large-scale purchases and, as a result, as noted earlier, the Chinese surplus in price- and therefore exchange rate-sensitive manufactures has soared from $422 billion in 2009 to $755 billion in 2012. But the increase in the Chinese trade surplus means a corresponding rise in the trade deficits of trading partners—the "beggar-thy-neighbor" effect—and the United States has been the outstanding beggarly neighbor, through the increase in its deficit of manufactures from $326 billion to $498 billion, 70 percent of which is with China.

Moreover, others, particularly in Asia, have also become increasingly large-scale central bank purchasers of foreign exchange to stimulate export-led growth and/or to offset the adverse trade impact from Chinese currency manipulation. Official foreign exchange holdings have skyrocketed from $1.9 trillion in 2000 to $5.0 trillion in 2006 to $10.5 trillion in 2012.

The United States, the EU, Canada, and Mexico have nevertheless continued to maintain market-based exchange rates, in keeping with IMF obligations, but unless the large-scale currency manipulation by others stops, open trade relationships will be jeopardized. A joint response by members of the TTIP to end mercantilist currency manipulation could be the most effective way of avoiding this. The specifics of how this can best be done are beyond the scope of this report. In broad terms, however, the exchange rate policy commitment would not be incorporated in the TTIP agreement, but adopted as a separate statement of policy intent, linked to violations of the IMF prohibition on currency manipulation and to the WTO commitment, contained in GATT Article XV, not to use exchange rate policy to frustrate reciprocal and mutually advantageous access to markets.

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These are the principal issues, in brief form, that have caused the serious and life-threatening decline in the Bretton Woods multilateral economic system and, from this, how a comprehensive TTIP can be the catalyst for restoring a balanced, non-discriminatory trade and financial system.

A Negotiating Strategy and Key Objectives

A comprehensive TTIP is an ambitious undertaking, in political as well as economic terms, and President Obama's State of the Union announcement that negotiations would begin later this year was received with considerable skepticism if not pessimism. The serious internal, immediate economic problems on both sides of the Atlantic and longstanding protectionist interests for important components of an agreement certainly do not bode well for the negotiations. The proposals offered here, moreover, are particularly ambitious and far-reaching, and therefore likely to be viewed even more pessimistically. Regretfully, such pessimism is largely justified in the current policy setting.

This rather bleak outlook, however, also leads to the first and most important element of a successful negotiating strategy: high-level, forward-looking leadership on both sides of the Atlantic. Such leadership would highlight the three broad mutual interests presented at the outset—the gains from trade and improved competitiveness for technology-intensive industries, the catalytic role for restoring the rules-based multilateral economic system, and the strengthening of U.S.-European foreign policy collaboration. Such forward-thinking leadership would, among other things, help avoid the negotiations getting bogged down in procedures tending to limit the scope of the agenda and impasse over the most difficult issues.

One way to ensure such forward-looking leadership would be for President Obama to select as his chief negotiator a person of political standing and international experience. This presidential envoy would operate out of the Office of the U.S. Trade Representative, but with leadership standing as presidential envoy in dealing with other agencies of the executive branch and in relations with Congress. On the European side, a counterpart statesman of political standing could complete a leadership team for what would be termed an historic transatlantic initiative.

A presidential envoy for the TTIP negotiations would be fully compatible with the counterpart role of the U.S. Trade Representative for bringing the TPP negotiations to a successful conclusion, now a more important and challenging undertaking with the participation of Japan. Indeed, two complementary senior U.S. trade negotiators, working in close coordination, makes management sense in view of the many complex yet distinct issues addressed in the two regional forums.

A successful precedent for such a distinguished statesman as trade negotiator was President Kennedy's selection of former Republican Governor of Massachusetts and Secretary of State Christian Herter as the first U.S. Special Trade Representative (STR) in 1962, to negotiate what became the Kennedy Round agreement. This agreement also centered on the transatlantic relationship, with the objective of reducing the then much higher tariffs by 50 percent in order to prevent the recently created European Economic Community from turning inward and protectionist. Herter's success benefited from his relationships with senior European leaders and his ability to maintain bipartisan support from the Congress.[5] In this context, it is even possible that another former Republican governor of Massachusetts might be considered as a fitting U.S. negotiator for the TTIP.

The other major structural dimension of negotiating strategy for the TTIP is the need to have broadly based U.S. participation, from within the government and from the private sector. These negotiations will be largely focused on non-tariff barriers and regulatory policies that restrict trade and investment in technology-intensive industries, and this will require thorough knowledge and insight from those fully engaged in these sectors. For the executive branch, this can mean participation by regulatory agencies as well as economic agencies, while private sector analysis and advice from industry associations will play an essential role. The pharmaceutical industry, for example, has already begun to prepare its assessment of negotiating priorities.

[5] I had the honor to serve in the newly established STR from 1964 to 1967 as part of the U.S. Kennedy Round negotiating team, went on to write a history of the negotiations, *Traders and Diplomats: An Analysis of the Kennedy Round of Negotiations Under the General Agreement on Tariffs and Trade* (The Brookings Institution, 1970), and have lasting memories of Governor Herter's dedicated and inspiring leadership.

It is important to note that the U.S.-EU negotiations will become much more deeply involved in such technology-oriented regulatory policies than will the TPP. The United States and the EU are the two most advanced high-technology economies, with leading-edge regulatory policies that can benefit from greater transparency, harmonization, and openness to trade and investment. The TPP, in contrast, includes participation of developing countries such as Vietnam and Peru, and will likely settle for a lower common denominator of regulatory policy results.

As for specific negotiating objectives, earlier reference was made to the HLWG and the Schott/Cimino reports, and more preparatory work is under way. The presentation here is limited to brief commentary on two key sectors, agriculture and energy, which, although much smaller in terms of trade than the manufacturing sector, will be critical for the TTIP final outcome. They also involve far-reaching technological change with important impact on trade.

Agriculture. This is clearly a make-or-break issue, with the United States making it categorically clear that EU liberalization for U.S. farm exports has to be part of the final agreement. Senator Max Baucus, chairman of the Senate Finance Committee, underlined "the critical importance to the U.S. . . . of eliminating unfair barriers that keep our agricultural products out of the European market without any scientific justification—for example, blocking genetically modified crops and beef and pork containing feed additives that have been deemed to be safe."[6] This is a definitive statement of where the United States stands, including the technology dimension of genetically modified products. The share of the U.S. corn crop that is genetically modified has soared from 25 percent in 2000 to almost 90 percent in 2012. TTIP negotiators will have to address food safety standards for such products, with a view to eliminating unjustified import restrictions, increasing U.S. agricultural exports, and lowering European food costs. It will be difficult politically for the EU, and enhanced adjustment assistance for European farmers may be needed, but the time has come for adopting sound scientific standards for trade in agricultural products.

Energy. Free trade and investment across the Atlantic for the energy sector can have game-changing consequences, politically as well as economically. A fundamental restructuring of energy production and trade is under way, driven principally by applied new technologies, most importantly for natural gas and petroleum. If Canada and Mexico participate in the TTIP negotiations, the goal could be a high level of transatlantic self-sufficiency in fuels. In other words, a broad energy strategy could be adopted, within which the TTIP would provide total free trade and investment, as well as other provisions such as joint support for R&D for renewable fuels. A major commitment by the United States would be to end restrictions on U.S. exports of natural gas and petroleum, at least to the EU, including for construction of liquefied natural gas (LNG) facilities for export. The broader objectives of this energy strategy would be to reduce dependence on oligopoly-priced imports from politically unstable or unfriendly countries, thus lowering energy costs, and to lower CO_2 emissions through growth in natural gas production. Framed in these terms, the outcome in the energy sector could become a crowning achievement of the TTIP.

These are the broad lines of a TTIP negotiating strategy. There is one final critical step that has to be taken for a successful agreement, however, one that receives occasional attention but needs to be underlined with an exclamation point: presidential trade promotion authority! This issue also has a 50-year history. President Johnson signed the Kennedy Round agreement in 1967, but when he submitted it, as required, for Congressional approval, Congress deleted two of the most contentiously negotiated U.S. concessions, i.e., to end the American selling price basis for tariffs on chemical imports and an antidumping agreement. Other nations were greatly upset, withdrew concessions of benefit to the United States, and made clear that the American president had lost credibility for signing trade agreements. In response, for the Tokyo Round GATT negotiations, the Trade Act of 1974 provided the

[6] "The right transatlantic trade deal is a top priority for America," *The Financial Times*, March 4, 2013.

so-called “fast track” negotiating authority, whereby an agreement, signed by the president, would be submitted to Congress for a yes or no vote, with no amendments, within 60 days.

This fast track authority has been adopted several times for multilateral GATT rounds and bilateral free trade agreements through 2004. President Obama, however, does not have fast track authority, but he will need it if he is to have credibility in signing a TPP as well as a TTIP agreement. And the sooner the better, because as draft TPP and TTIP agreements take more specific form, the more likely Congressional opponents of specific provisions will be to act to block the renewal of trade promotion authority.

The Prospect for Success

What is the prospect for success for a transatlantic free trade and investment agreement? It is highly uncertain, to say the least. The wide-ranging benefits for both sides have been summarized here, but these are troubled economic times on both sides of the Atlantic. Some Europeans talk of a quick and dirty deal, excluding agriculture, but this is a non-starter for the United States. The United States, in turn, has reservations about engaging its more politically sensitive and protected domestic interests. As for timing, conclusion of the TPP has been given priority, but its intended completion in 2013 is likely to be delayed, with a number of difficult issues yet to be resolved and new complications with the recent participation of Japan. If, in parallel, this leads to a lackluster opening meeting of the TTIP negotiations in late 2013, with technical negotiating groups established without specific objectives or completion dates for a draft agreement, the negotiations could drag on into 2015, awaiting Congressional approval of the TPP, and, in effect, leaving an uncertain TTIP outcome for the next president.

The only judgment offered here is that the negotiating high road of a top priority, forward-looking transatlantic agreement has greater chances of success than a less ambitious, slower track low road. Let’s take the high road!