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A brief on the politics and economics of the Transatlantic Trade and Investment Partnership

Abstract

The transatlantic trade in goods and services is worth about 1 trillion USD annually, supporting some 4.1 million jobs in the European Union and 3.3 million jobs in the United States. The trade between the EU and the US has, up till now, been regulated by the multilateral rules of the World Trade Organization (WTO), which apply equally to all 162 member states. This brief paints the background of the historical decision to bypass the WTO and instead deal directly with each other, which is a consequence of the disappointment stemming from the stalemates in the WTO. The negotiations of the Transatlantic Trade and Investment Partnership (TTIP) began in July 2013 with the ambition to conclude the negotiations before the end of President Barack Obama´s term in January 2017. This brief outlines what the parties are trying to achieve, potential sticking points, the interdependence of the EU and US economies and the potential gains of a successful agreement.

1 Introduction

The European Union and the United States are the two largest economies in the world. Together, they account for about half of world output and nearly a third of world trade (intra-EU trade unaccounted). The transatlantic trade in goods and services is worth about 1 trillion USD annually, supporting some 4.1 million jobs in the EU and 3.3 million jobs in the US. Furthermore, both sides have invested about 2 trillion USD in each other's markets.[1]

Despite huge commercial stakes, transatlantic trade has not been subject to any bilateral treaties in the past. The trade relations between the EU and the US have been regulated by the multilateral rules of the World Trade Organization (WTO), which is based in Geneva, and things would probably have remained that way if the negotiation machinery had not broken down. By 2007, it was clear that the Doha round had stalled with few prospects for revival. This led the EU to reconsider the moratorium on bilateral and regional trade agreements that it had pledged at the beginning of the round in order to focus on the multilateral talks, and the old plans to bridge the transatlantic market through a comprehensive trade and investment agreement were dusted off.

After seven years of dialogue, assessments and consensus building, US President Barack Obama, European Commission President José Manuel Barroso and European Council President Herman Van Rompuy announced the agreement to launch negotiations on a Transatlantic Trade and Investment Partnership (TTIP), confirmed by the US Congress and the European Council on June 14, 2013. The objective defined in the joint statement is "promoting greater growth and supporting more jobs". The statement also emphasised that TTIP "will have the opportunity not only to expand trade and investment across the Atlantic, but also to contribute to the development of global rules that can strengthen the multilateral trading system."

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1 See Section 5 for details.

This brief paints the background of the historical decision to bypass the WTO and instead deal directly with each other. It also outlines what the parties are trying to achieve, potential sticking points, the interdependence of the EU and US economies and the potential gains of a successful agreement.

2 From multilateral to bilateral

As noted in the introduction, transatlantic trade has not been subject to any bilateral treaties in the past, in spite of the enormous flow of goods, services and investments that cross the Atlantic each year. The trade relations between the EU and the US have been regulated by the very same rules that apply to all members of the World Trade Organization (WTO), which is based in Geneva, and things would probably have remained that way if the process of gradual trade liberalisation had continued as in the past. The Doha round initiated in 2001 is now a decade behind schedule, raising questions about whether the WTO is passé[2] and – with it – the multilateral vision that formed the post-war trading system codified in Article I of the General Agreement on Tariffs and Trade (GATT), which provides that all trading partners should be treated equally (the MFN clause).[3]

The cracks in the multilateral system began to appear shortly after the WTO was inaugurated in 1995 to implement the new portfolio of trade agreements that resulted from the Uruguay Round (1986-1994), including the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). There was a general feeling among developing countries – which now makes up three-quarters of the membership – that they had been short-changed in the Uruguay Round. There were complaints that the TRIPS agreement, in their view, denied them access to medicine and technology on conditions they could afford; there were complaints that the GATS provided nothing on "mode 4", i.e. persons working temporarily in another country to deliver a service (an issue that was and is entangled with the migration debate); and there were complaints about the slow progress on the long list of "special and differential treatment" provisions regarding developing countries. In turn, the industrialised countries were eager to push on with further liberalisation and extension into new areas, and were frustrated with the lack of progress.

After 4 years of deliberations in Geneva, a ministerial conference was called in Seattle, US, to launch the "Millennium Round" in order to address all of the issues that had been raised. The hope was that a package deal with something for everyone would square the circle. The attention turned instead to outside factors. The anti-globalisation movement had mobilised thousands of activists that condemned the WTO for lacking democracy, causing poverty, degrading the environment, etcetera, all in the name of enriching multinational companies. They besieged the conference venue, and it was occasionally engulfed in tear gas in an effort to hold the activists at bay. The Ministerial failed, and the next two years were devoted to soul-searching.

The pivotal event that brought everyone back to the negotiation table was the terrorist attack on 9/11, 2001, which threatened to throw the world economy into recession. This was not the time for the participants to dig in their heels, and earlier stalemates were unlocked. An agenda for a new "development round" was brought to the ministerial conference in Doha in November 2001, which signed off on the Doha Development Agenda (DDA) after pushing back the decision of whether to initiate negotiations on the "Singapore issues" to the next ministerial to be hosted by Mexico in Cancun in September 2003. The Singapore agenda was sponsored by the EU, the US and other industrialised countries and included four new issues: transparency in government procurement, trade facilitation (cutting red tape at customs), trade and investment, and trade and competition. As it turned out, three of the four Singapore issues were blocked at the Cancun Ministerial, and the conferences ended with tempers flaring. At the closing press conference, the WTO was branded a "medieval organisation" by the chief negotiator of the EU, Pascal Lamy, who, later on, became the Director-General of the WTO. The US chief negotiator, Robert Zoellick, spared no words either: "Some countries will now need to decide whether they want to make a point or whether they want to make progress". In a written comment about the collapse he added: "As WTO members ponder the future, the US will not wait: we will move towards free trade with can-do countries." By 2007, it was clear that the Doha round had stalled beyond the point of rescue, and the EU revoked the pledge of not entering into any new bilateral and regional

[2] See Horn (2015) for an initiated discussion (in Swedish).

[3] The GATT was drafted in the spirit of the Atlantic Charter of August 1941, where U.S President Franklin D. Roosevelt and British Prime Minister Winston Churchill laid down eight principles for a prosperous and peaceful world after the war, the fourth of which committed the US and Great Britain "to further enjoyment by all States, great or small, victor or vanquished, of access, *on equal terms* [italics added], to the trade and to the raw materials of the world which are needed for their economic prosperity".

FIGURE 1 THE DOHA ROUND – THE END OF MULTILATERALISM?

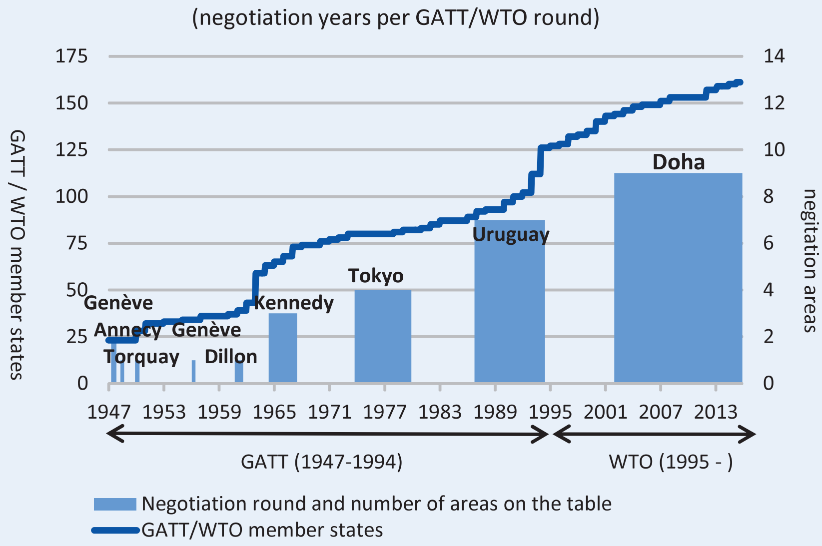
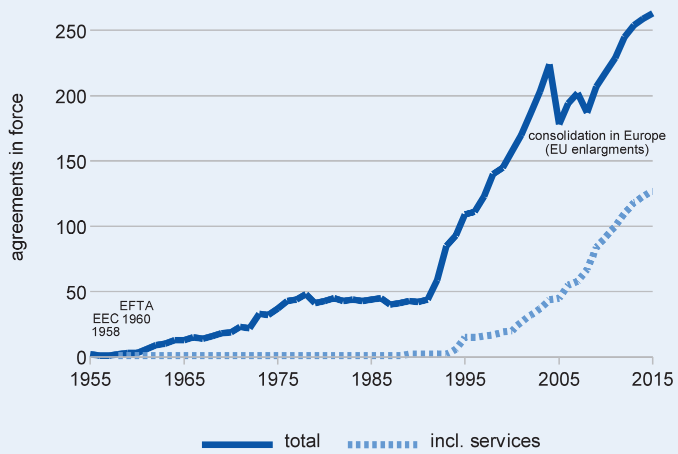


FIGURE 2 BILATERAL AND REGIONAL TRADE AGREEMENTS BETWEEN MEMBERS OF THE WTO



Source: WTO RTA database

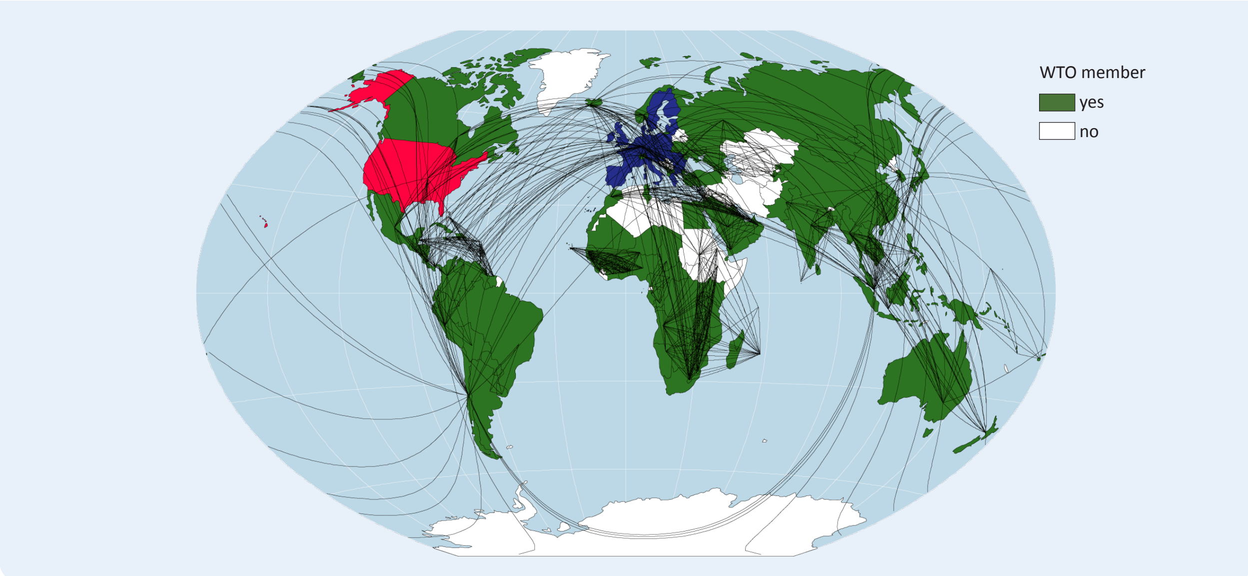
agreements for the duration of the Doha round (which should have been completed by the end of 2005).

There is enough blame to go around for the deadlocks in the WTO. But deep down, the incapacitation of the organisation may simply be an issue of sheer numbers, together with the consensus principle, which was inherited from the GATT era, when the members were fewer and more homogenous.[4] Indeed, as shown in Figure 1, each successive round of trade negotiations has taken a longer time to complete (indicated by the width of the bars), with an apparent correlation with the number of participants (left-hand scale) and negotiation areas on the table (right-hand scale).

The real action has instead migrated to the bilateral and regional arena (Figure 2). The number of bilateral and regional agreements between the members of the WTO now tops 260, with another 40 in the pipeline, including three mega-regionals: the Trans-Pacific Partnership (TPP) involving twelve countries along the Pacific Rim, the EU-

[4] By contrast, the two other "Bretton Woods" institutions set up after the Second World War – the World Bank and the International Monetary Fund – distribute voting power based on financial contributions.

FIGURE 3 THE WORLD TRADING SYSTEM (2015)



Source: WTO RTA database

US Transatlantic Trade and Investment Partnership (TTIP) and the Regional Comprehensive Economic Partnership (RCEP) in Asia.

The result is a growing web of bilateral and regional agreements (indicated by the nodes in Figure 3), which both creates and diverts trade, leaving the net welfare effects in some doubt according to the classical analysis of Jacob Viner (1950). And Figure 3 still underestimates the "spaghetti bowl" – a term coined by the Indian economist Jagdish Bhagwati (1995) – as it does not include the preferential trade agreements that criss-cross the world economy from North to South, and increasingly, South-South.

Of course, the EU has always had a regional agenda with the objective to build "an ever closer union among the peoples of Europe". In fact, the formation of the European Economic Community (EEC) in 1957 was the first major derogation of the MFN principle in the GATT, justified under the exception clause for customs union and free trade areas in Article XXIV.[5] The EU was also a pioneer in granting preferential treatment to its former colonies in Africa, the Caribbean and the Pacific (ACP); this was later extended to other qualifying developing countries under the General System of Preferences (GSP) sponsored by UNCTAD. What is different this time is that the EU is now casting the net wider to industrial countries outside of Europe, including South Korea (2011), Canada (pending ratification), Japan (under negotiation) and the United States. This new direction is at least partly an effect of the stalemates in the WTO.

The US, being a founding member of the GATT, stayed on the multilateral course until the mid-1980s, when a free trade agreement was signed with Israel, mainly for political reasons. The first regional trade agreement was concluded with Canada in 1989, extended to Mexico in 1994, when the North American Free Trade Agreement (NAFTA) came into force. The US has since expanded its FTA network by about one country per year to Chile, Colombia, Panama, Peru and the Central America FTA (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Dominican Republic) in Latin and South America; Bahrain, Jordan, Morocco and Oman in the Middle East and North Africa; and Australia and Singapore in Asia and the Pacific. The pace is now accelerated with two mega-regionals crossing the Pacific (TPP) and the Atlantic (TTIP).

5 The exception clause includes the following conditions: (i) substantially all the trade is covered and (ii) trade barriers are not, on the whole, raised against third parties. The exception clause is thus not an open invitation to discriminate between trading partners; it was intended for the kind of deep integration agreements that the EU represents – although this "nuance" was lost long ago. Only a handful of some of the 300 RTAs that have been notified to the GATT and the WTO over time have been declared fully consistent with Article XXIV, and *no* agreement has ever been declared inconsistent. The legal status of most RTAs is therefore in limbo.

3 From the Transatlantic Declaration 1990 to the launch of the TTIP negotiations 2013

The idea of bridging the transatlantic markets through a trade and investment agreement goes back to the early 1990s. The *Transatlantic Declaration on EC-US relations* of February 1990 identified a number of areas for closer cooperation, including a list of trade issues that were not or only partially covered by the GATT. The areas mentioned for a regulatory dialogue were technical and non-tariff barriers to industrial and agricultural trade, services, competition policy, transportation policy, standards, telecommunications, high technology and other relevant areas.

By 1995, a *New Transatlantic Agenda* was adopted, supplemented with a *Joint Action Plan* that outlined a two-prong strategy for dealing with old and new trade barriers: (i) A multilateral track with concerted actions in the WTO to secure the full implementation of the Uruguay Round Agreements by all WTO members, plus an ambitious work plan including financial services, information technology, government procurement, foreign direct investment, competition policy, environment and labour standards; and (ii) a bilateral track with the aim of creating a New Transatlantic Marketplace with a specific focus on regulatory cooperation.

In other to advance the bilateral agenda, a number of transatlantic "dialogues" were established to identify problems, propose solutions and build consensus:

- The *Trans-Atlantic Business Dialogue* (TABD) was established in 1995 as the official business sector advisory group for EU and US officials on trade and investment issues. On 1 January 2013, the TABD merged with the European-American Business Council (EABC), creating the *Trans-Atlantic Business Council* (TBC).
- The *Trans-Atlantic Consumer Dialogue* (TACD) was established in 1998 and is a forum of US and EU consumer organisations. It develops joint recommendations on, inter alia, food standards, nanotechnology, trade, health, and intellectual property issues.
- The *Transatlantic Legislators' Dialogue* (TLD), launched in 1999, aims at enhancing the dialogue between the European and American federal legislators, the European Parliament and the American Congress.
- The *Transatlantic Economic Council* (TEC) was established in 2007 under the *Framework for Advancing Transatlantic Economic Integration between the European Union and the United States of America*, co-chaired by the White House Special Advisor for International Economic Affairs and the European Commission Vice President for Trade.

The final push began in 2011 when the EU-US Summit established a new joint High-Level Working Group (HLWG) on Jobs and Growth to assess the available options. In its final conclusion, issued on February 11, 2013, the Group announced that a comprehensive agreement that addressed a broad range of bilateral trade and investment issues, including regulatory issues, and contributed to the development of global rules, would provide the most significant mutual benefit of the available options.[6] Two days later, President Barack Obama, European Commission President José Manuel Barroso and European Council President Herman Van Rompuy announced the agreement to launch negotiations on a Transatlantic Trade and Investment Partnership,[7] confirmed by the US Congress and the European Council on June 14, 2013.[8]

From start to finish, it took more than 23 years of dialogue, assessments and consensus building to launch the negotiations of TTIP. One factor that held the EU and the US back for many years was the risk that a trade deal between themselves – the two largest economies in the world – may pull the plug of the WTO system, a risk that was not worth taking as long as the WTO negotiations were making progress.[9] Another factor that slowed things down was the need to ensure that there was enough common ground to make the endeavour politically feasible. Negotiating with an equal partner is an entirely different story than dealing with a small economy on one's own terms. A trade deal between the EU and the US would, by necessity, involve difficult compromises on both sides. What finally tipped the balance was the need to stimulate the EU and US economies after the financial crises in 2008-2009. A deep and comprehensive trade and investment agreement could – according to the impact assessment financed by the EU[10] – bring significant economic gains as a whole for the EU (€119 billion a year) and the US (€95 billion a year), equivalent to an extra €545

[6] http://www.ustr.gov/sites/default/files/02132013%20FINAL%20HLWG%20REPORT.pdf
[7] http://europa.eu/rapid/press-release_MEMO-13-94_en.htm
[8] http://trade.ec.europa.eu/doclib/press/index.cfm?id=917
[9] Josling and Crombez (2013).
[10] Francois et al (2013).

in disposable income each year for a family of 4 in the EU and €655 per family in the US.

4 Objective, mandate and potential sticking points

The objective of the TTIP negotiations, as broadly defined in the *joint statement* of February 13, 2013, is "promoting greater growth and supporting more jobs". The statement also emphasised that TTIP "will have the opportunity not only to expand trade and investment across the Atlantic, but also to contribute to the development of global rules that can strengthen the multilateral trading system."

As far as the specific aims and modalities of the negotiations were concerned, the joint statement referred to the report of the HLWG, which is the roadmap followed so far. The negotiations are divided into three broad areas: (a) market access; (b) regulatory issues and non-tariff barriers; and (c) rules, principles and new modes of cooperation to address shared global trade challenges and opportunities:

Market Access

- **Goods:** Eliminate all duties on bilateral trade, with a substantial elimination of tariffs upon entry into force, and a phasing out of all but the most sensitive tariffs in a short time frame.
- **Services:** Bind the highest level of liberalisation that each side has achieved in trade agreements so far, while seeking to achieve new market access by addressing the remaining long-standing market access barriers, recognising the sensitive nature of certain sectors.
- **Investments:** Highest levels of liberalisation and highest standards of protection that both sides have negotiated to date.
- **Government procurement:** Substantially improved access to government procurement opportunities at all levels of government on the basis of national treatment.

Regulatory issues and non-tariff barriers:

- **SPS-plus:** Building on WTO Agreement on Sanitary and Phytosanitary (SPS) measures to establish an on-going mechanism for improved dialogue and cooperation on addressing bilateral SPS issues based on science and on international standards or scientific risk assessments, applied only to the extent necessary to protect human, animal, or plant life or health, and developed in a transparent manner, without undue delay.
- **TBT-plus:** Building on the WTO Agreement on Technical Barriers to Trade (TBT), establish an ongoing mechanism for improved dialogue and cooperation to address bilateral TBT issues. The objective is to yield greater openness, transparency, and convergence in regulatory approaches and requirements and related standards- development processes, as well as, inter alia, to reduce redundant and burdensome testing and certification requirements, promote confidence in our respective conformity assessment bodies, and enhance cooperation on conformity assessment and standardisation issues globally.
- **Cross-cutting:** Cross-cutting disciplines on regulatory coherence and transparency for the development and implementation of efficient, cost-effective, and more compatible regulations for goods and services, including early consultations on significant regulations, use of impact assessments, periodic review of existing regulatory measures, and application of good regulatory practices.
- **Sector-specific:** Provisions or annexes containing additional commitments or steps aimed at promoting regulatory compatibility in specific, mutually agreed goods and services sectors, with the objective of reducing the costs stemming from regulatory differences in specific sectors, including the consideration of approaches relating to regulatory harmonisation, equivalence, or mutual recognition, where appropriate.
- **Institutions:** A framework for identifying opportunities for and guiding future regulatory cooperation, including provisions that provide an institutional basis for future progress.

New modes of cooperation to address shared global trade challenges and opportunities:

- **Intellectual Property Rights (IPR)**: Promote a high level of intellectual property protection in international fora, and explore opportunities to address a limited number of significant IPR issues of interest to either side, without prejudice to the outcome.
- **Environment and labour**: Promote high levels of protection for the environment and workers in international fora, taking into account work done in the Sustainable Development Chapter of EU trade agreements and the Environment and Labour Chapters of US trade agreements.
- **Supply chain liberalisation:** Reach bilateral agreement on globally relevant rules, principles, or modes of cooperation in the following trade-related areas: Customs and trade facilitation; Competition policy; State-owned enterprises; Localisation barriers to trade (measures designed to protect, favour, or stimulate

domestic industries, services providers, or intellectual property at the expense of imported goods, services, or foreign-owned or foreign-developed intellectual property); Raw materials and energy; Small- and medium-sized enterprises; and Transparency (anti-corruption rules).

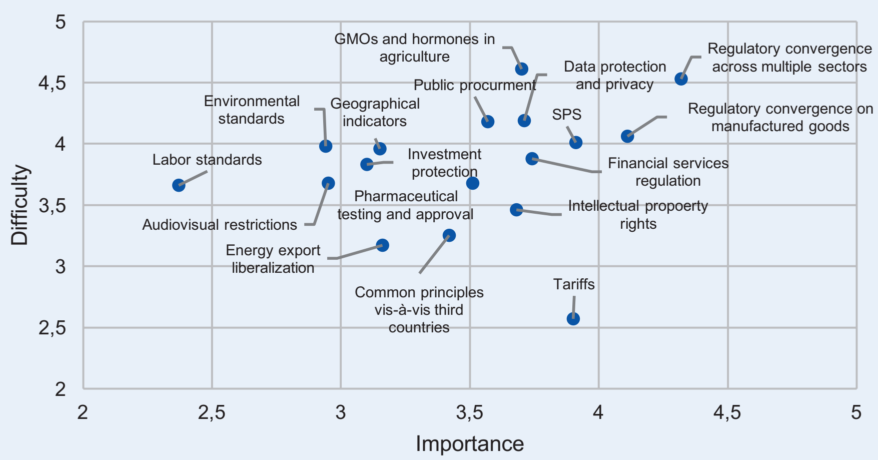
This is an ambitious agenda, and it is far from clear that all of the objectives will be met. In a survey conducted by the Atlantic Council and the Bertelsmann Foundation (2013), stakeholders from business, academia, government and legislature were asked to rate seventeen sectoral and horizontal issues on two dimensions: the degree of importance and the degree of difficulty of reaching an agreement.

When the two dimensions were plotted against each other (Figure 4 and Table 1), it became clear that the issues that were rated more important were also rated more difficult to achieve (on a scale 1 to 5). The most important, but also most difficult result to achieve was "significant regulatory process convergence across multiple sectors", i.e., issues that have been deliberated in the regulatory dialogues

TABLE 1 STAKEHOLDERS' RANKING OF ISSUES BY DEGREE OF IMPORTANCE AND DIFFICULTY

	Issue	Imp.	Diff.
1.	Significant regulatory process convergence across multiple sectors	4.32	4.53
2.	Significant convergence in regulatory regimes and standards for manufactured goods	4.11	4.06
3.	Significant progress on SPS measures	3.91	4.01
4.	Elimination of tariffs or significant tariff reductions across most sectors	3.90	2.57
5.	Mutual recognition or convergence of financial services regulation	3.74	3.88
6.	Significant alignment in regulations addressing data protection and privacy	3.71	4.19
7.	Recognition of market access for GMOs and agricultural goods treated with hormones	3.70	4.61
8.	IPR protection and enforcement of audiovisual materials and software	3.68	3.46
9.	Significant increases in market access to procurement markets at the state and local levels	3.57	4.18
10.	Convergence in pharmaceutical testing and approval requirements for new drugs	3.51	3.68
11.	Common principles vis-à-vis third countries including subsidies, SOEs, and domestic ownership requirements	3.42	3.25
12.	Significant reductions of restrictions on the export of energy from the US	3.16	3.17
13.	Convergence on recognition and/or removal of geographic indicators (GIs)	3.15	3.96
14.	Agreement on broad bilateral investment liberalisation with advanced investor protections	3.10	3.83
15.	National content quotas and ownership restrictions for audio-visual (A/V)	2.95	3.68
16.	Significant convergence in environmental standards	2.94	3.98
17.	Significant convergence in labour standards	2.37	3.66

FIGURE 4 POTENTIAL STICKING POINTS



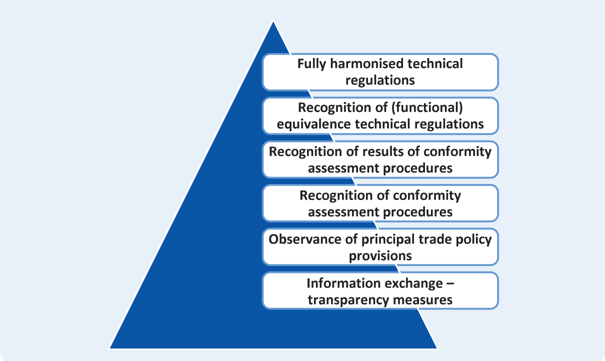
Source: Atlantic Council and the Bertlesmann Foundation (2013).

between the EU and the US since the mid-1990s. And the *only* low hanging fruit in the Transatlantic Garden of Eden would seem to be the traditional agenda of reducing and eliminating tariffs on goods, and even that may be a tall order for "sensitive" farm products.

Removing existing technical barriers to trade (TBT) and preventing the creation of new barriers through regulatory cooperation, mutual recognition of standards, and other means will be a central, if not the most important part of the negotiations between the EU and the US. And the further the parties are able to climb up the regulatory pyramid from the base level of exchanging information to the top level of fully harmonised technical regulations, the less the hindrance to trade.

The regulatory pyramid is not easy to climb, however. As explained in two reports by the National Board of Trade (2014, 2015), from which Figure 5 is taken, TBTs consist of a multitude of product regulations that exist in order to ensure that certain policy interests are safeguarded, for example, protecting the environment or human health. They cannot just be abolished, but need to be approached in a manner that enables more trade, without lowering the desired level of protection. The EU and the US have about the same levels of protection for many products, but their regulatory systems have been designed in completely different ways, resulting in regulations that create unnecessary barriers to trade between the EU and the US. Since both regulatory systems have developed over a long period of time and are well established, regulatory issues related to legitimate objectives such as health and safety are among the more difficult issues for which an agreement is sought in TTIP.

FIGURE 5 THE REGULATORY PYRAMID



Source: National Board of Trade (2014).

5 The economic interdependence between the EU and the US

Being the two largest economies of the world, the EU and the US economies are already highly inter-dependent. According to the statistics published on the TTIP webpage of the DG Trade, the exports from the EU to the US were worth €470.2 billion in 2013 and the imports (= exports of the US to the EU) €356.1 billion, which are equivalent to about 1 trillion USD annually at an exchange rate of 1.2 USD/Euro. The outward stock of foreign direct investment from the EU to the US was valued at €1686.5 billion and the inward stock (= US FDI in the EU) was valued at €1651.6, i.e., about 2 trillion USD in each direction (Table 2).

The interdependence between the EU and the US economies can also be measured by the number of jobs that are "embodied in" or "supported by" transatlantic trade. We will present new estimates based on the World Input Output Database (WIOD) that allow us to capture both direct and indirect linkages through global value chains (GVCs).[11]

The basic idea behind these calculations is simple enough, even though the math is quite involved. We have data on how much low-, medium- and high-skilled labour (hours of work translated in full-time equivalents) that is required to produce one million dollars worth of output in different sectors and countries. We also have data on how these sectors and countries are linked by supply chains. By tracing the labour content backward in the supply chain, it is possible to calculate the total amount of domestic labour that goes into the production of, say, an automobile, including the labour needed to produce the steel, engine parts, upholstery, tyres, software for emissions control, etcetera. It is then a matter of adding up the labour content of all of the goods and services that cross the Atlantic. Note that we do not include goods and services that bypass the EU-US border. A case in point is the exports of high tech components and software from the US to assembly lines in China that produce consumer goods for the EU and other markets around the world. This trade is not included, although it embodies many US jobs, since these jobs will not be directly affected by TTIP.

The estimated number of jobs embodied in transatlantic trade in 2011 was 7.4 million, of which 4.1 million (full-time equivalent) jobs were in the EU and 3.3 million jobs were in the US (Table 3). About 23.9 percent of the jobs embodied in the exports of the EU to the US were low-skilled, 48.8 percent medium-skilled and 27.3 percent high-skilled,

[11] See e.g. Mirodout and Nordström (2015) for an introduction to GVC analysis.

TABLE 2 KEY STATISTICS 2013

	EU to US	US to EU
Goods	€289.5	€196.2
Services	€180.7	€159.9
FDI stocks	€1686.5	€1651.6

Source: DG Trade.

TABLE 3 NUMBER OF FULL-TIME JOBS ('000) SUPPORTED BY TRANSATLANTIC TRADE (2011)

Country	Total	Low-skilled	Medium-skilled	High-skilled
EU27	4111.6	981.5	2008.3	1121.8
Austria	80.1	14.1	52.4	13.5
Belgium	118.8	22.3	64.8	31.7
Bulgaria	30.3	22.4	5.1	2.7
Cyprus	1.9	0.6	0.8	0.5
Czech Republic	140.2	8.7	108.3	23.3
Denmark	54.5	13.9	24.5	16.2
Estonia	10.5	1.2	6.1	3.2
Finland	54.2	9.3	25.1	19.8
France	341.4	78.3	147.6	115.5
Germany	831.4	121.8	494.4	215.2
Greece	30.3	8.8	11.2	10.3
Hungary	77.8	10.6	51.0	16.1
Ireland	125.0	21.3	46.5	57.2
Italy	445.6	174.3	205.6	65.7
Latvia	5.5	0.7	3.4	1.4
Lithuania	8.6	0.6	5.6	2.4
Luxembourg	3.9	1.2	1.7	1.1
Malta	4.5	2.6	1.0	0.8
Netherlands	216.5	55.5	86.3	74.7
Poland	206.4	16.6	149.8	40.0
Portugal	70.7	46.5	14.3	9.9
Romania	73.1	55.1	12.0	6.1
Slovakia	33.0	1.3	26.9	4.9
Slovenia	13.2	2.1	8.4	2.7
Spain	312.7	118.6	73.4	120.7
Sweden	111.3	17.9	64.4	29.0
United Kingdom	710.2	155.2	317.7	237.2
United States	3317.3	282.7	1943.6	1091.0

Source: Own calculations based on the World Input Output Database.

compared to 8.5, 58.6 and 32.9 percent for the US. The difference reflects the composition of exports with a higher share of skill-intensive services in the US export portfolio.

Whilst transatlantic trade is the first or second most important market for both sides in absolute terms, the Relative Trade Intensity (RTI) defined as $RTI_{i,j}$ = *export share*$_{i,j}$ / *export share*$_{world,j}$ is actually below the world average. This is illustrated in Figures 6.a-b, where the top graphs plot trade shares by country; the middle graphs the relative trade intensity compared to the world at large (red colours indicate above average intensity of the trade relation and blue colours below average intensity), and the bottom graphs the FTA networks. What we observe in the graphs is simply the power of "gravity". The EU trade is relatively concentrated in Europe and North Africa, and the US trade in the Americas, i.e., in markets that are relatively close and connected by free trade agreements in many cases. This also means, of course, that there is a great deal of scope to increase the transatlantic trade.

6 What´s at stake?

Let us finally say something about the *potential* trade and welfare effects of TTIP. It is important to stress *potential* here, since the gains will ultimately depend on what is being achieved at the negotiation table, especially with regard to NTBs in the transatlantic market.

Perhaps the most ambitious impact assessment is the study by *Francois et al* (2013) funded by DG Trade, which uses a computable general equilibrium model of the world economy known as GTAP. We reproduce the key findings here:

- An ambitious and comprehensive transatlantic trade and investment agreement could bring significant economic gains as a whole for the EU (€119 billion a year) and the US (€95 billion a year). This translates to an extra €545 in disposable income each year for a family of 4 in the EU, on average, and €655 per family in the US.
- The benefits for the EU and the US would not be at the expense of the rest of the world. On the contrary, liberalising trade between the EU and the US would have a positive impact on worldwide trade and incomes, increasing global income by almost €100 billion.
- Income gains are a result of increased trade. EU exports to the US would go up by 28%, equivalent to an additional €187 billion worth of exports of EU goods and services. Overall, total exports would increase 6% in the EU and 8% in the US.

- Reducing non-tariff barriers will be a key part of transatlantic liberalisation. As much as 80% of the total potential gains come from cutting costs imposed by bureaucracy and regulations, as well as from liberalising trade in services and public procurement.
- The increased level of economic activity and productivity gains created by the agreement will benefit the EU and the US labour markets, both in terms of overall wages and new job opportunities for high and low skilled workers. Labour displacement will be well within normal labour market movements and economic trends. This means a relatively small number of people would have to change jobs and move from one sector to another (0.2 to 0.5 per cent of the EU labour force.)
- The agreement would have negligible effects on CO_2 emissions and on the sustainable use of natural resources.
- The aforementioned study has since been updated by Egger *et al.* (2014) with more recent GTAP data, combined with new statistical estimates of the "tariff equivalents" of the transatlantic NTBs. The new study suggests that a deep and comprehensive agreement that phases out all tariffs and reduces the tariff-equivalents of NBTs by half could increase transatlantic trade by as much as 80 percent.

FIGURE 6a THE MERCHANDISE TRADE GEOGRAPHY OF THE EU (2013)

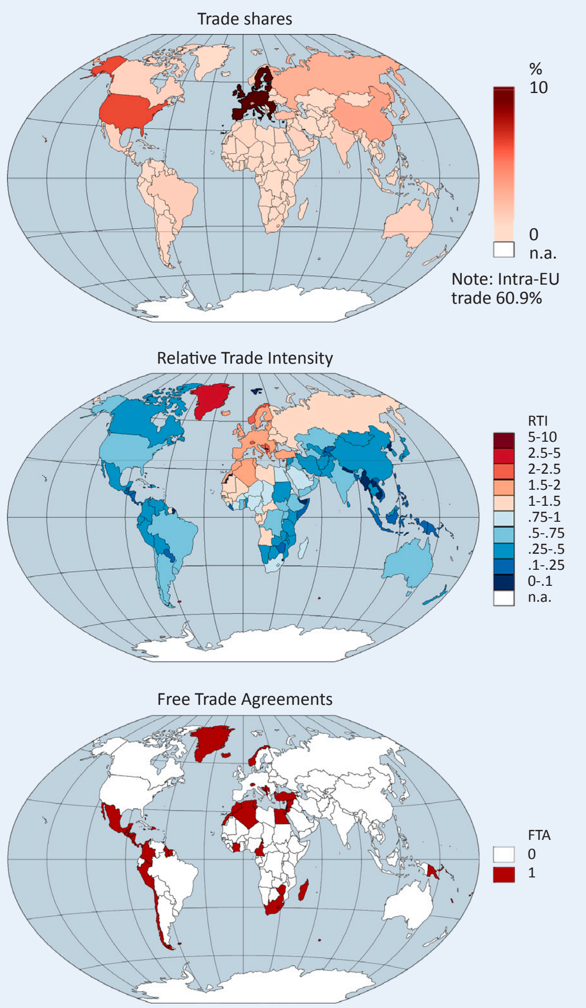
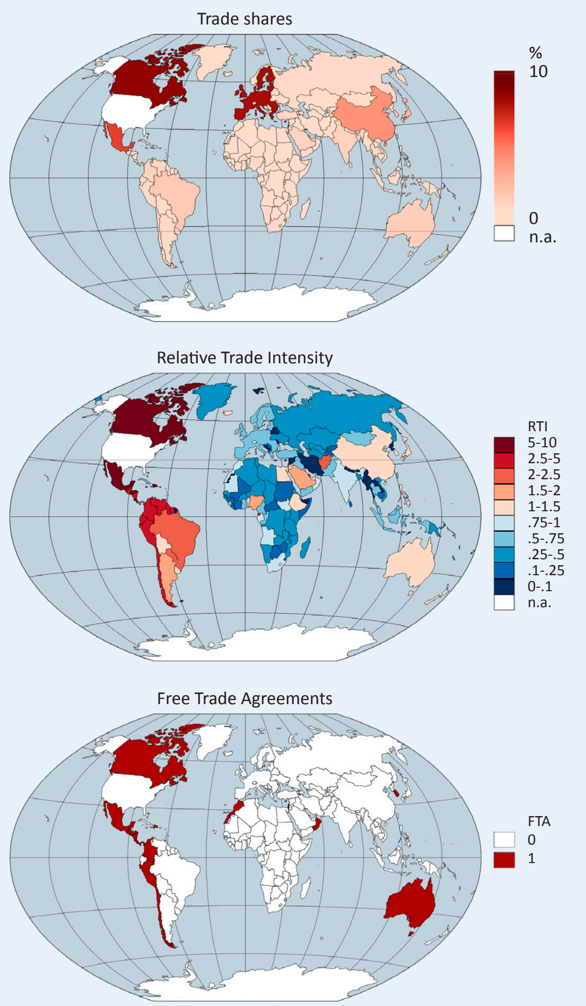


FIGURE 6b THE MERCHANDISE TRADE GEOGRAPHY OF THE USA (2013)



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