

ASSESS_TTIP:

***The Transatlantic Trade
and Investment Partnership (TTIP):
a Critical Assessment***

Werner Raza, HWR, Berlin, 08/12/2014

Structure of the Presentation

- I. The Flawed Economics of TTIP
- II. The Geo-Politics of TTIP

I. The Flawed Economics of TTIP

0. TTIP Negotiations – Aim and Scope

- Start of negotiations in July 2013, meanwhile seven negotiation rounds completed
- Comprehensive Free Trade & Investment Liberalization Agreement:
 - Broad sector coverage (agric., goods, services)
 - Removal of Non-Tariff-Barriers (laws, standards, regulations, administrative procedures) plus regulatory cooperation
 - Liberalization of investment (Market Access, National Treatment) plus Investor-to-State Dispute Settlement
 - Liberalization of public procurement
 - Harmonization of Intellectual Property Rights, Competition Policy
- Aims:
 - Creation of integrated transatlantic market → supposedly boost to income & growth in times of economic crisis
 - Regulatory harmonization and/or dismantling → cutting „red tape“
 - Global standard setting, increase pressure upon BRICS to speed up trade & investment liberalization

0. EU – US Trade

Total goods: EU Trade flows and balance, annual data 2003 - 2012

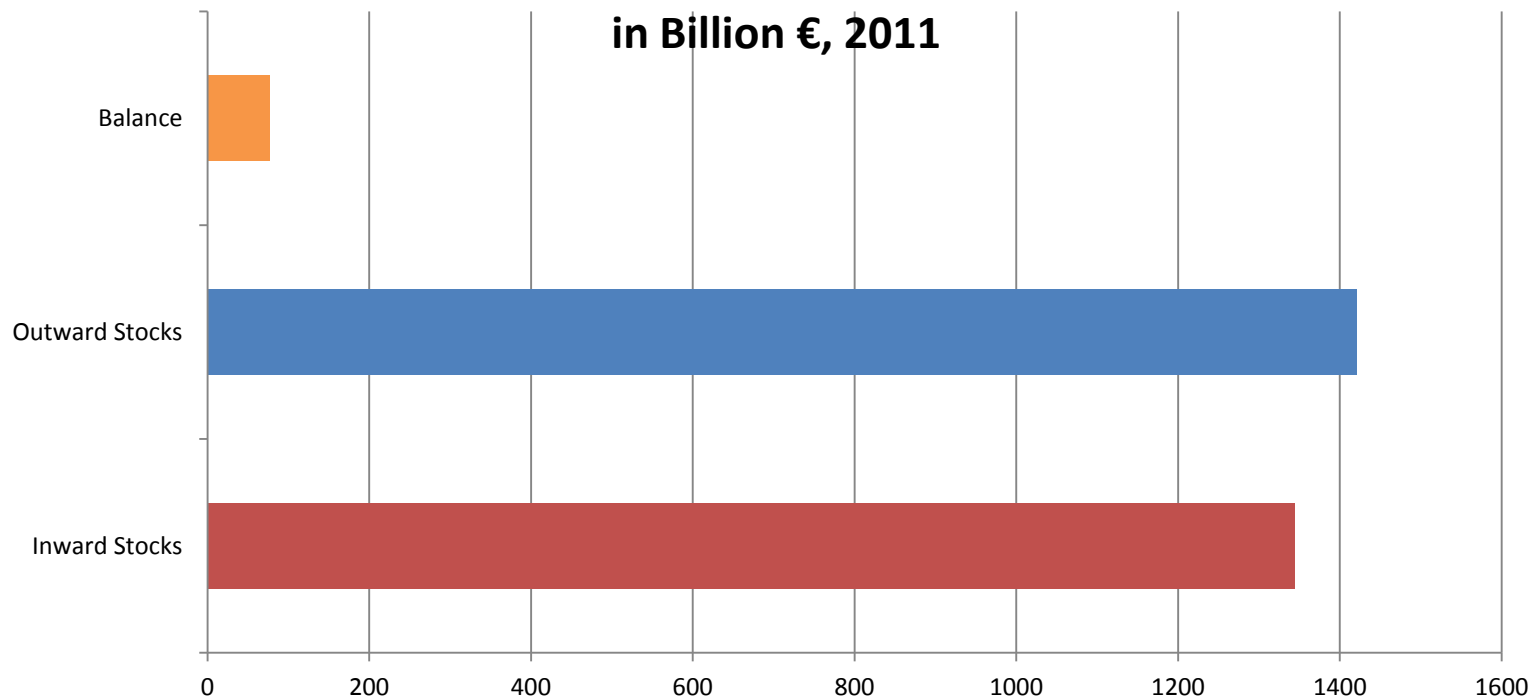
Statistical regime



➔ US is EU's most important trading partner: ~ 20% of EU Exports, ~ 15% of EU Imports

Source: European Commission

EU – US Foreign Direct Investment



➔ Bilateral FDI Stock at €2.400 billion (2011), annual FDI flows from US to EU, and vice versa, in the order of €80 billion

Source: European Commission

I. Aim of the ÖFSE Report

Research Question/Goal:

- **Detailed assessment of projected benefits** of TTIP by the studies: Ecorys (2009), CEPR (2013), CEPPI (2013) and Bertelsmann/ifo (2013)
- Identification and quantification of **neglected effects**
- Assessment of **technical model specifications**

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II. Main Results

1. Estimated gains of TTIP-studies are small
 2. Gains critically depend on NTM reductions/alignments
 3. Social costs of NTM reductions/alignments might be substantial
 4. Macroeconomic adjustment costs are not negligible and need to be addressed by policy-makers
 5. Other potential adverse effects include (i) trade & income reductions for LDCs, (ii) a reduction of intra-EU trade, and (iii) regulatory chill effects of investment protection
- ➔ **Limited economic gains, but considerable downside risks**

1. Estimated gains are small

	Ecorys (2009)*	CEPII (2013)	CEPR (2013)	Bertelsmann/ifo (2013)
Basic Assumptions				<i>Related to BMW/ifo (2013)</i>
CGE	GTAP	MIRAGE	GTAP	Simulation of gravity model
Data	GTAP 7	GTAP	GTAP 8	not specified
Non-tariff measures (NTM)	Ecorys	CEPII & Ecorys	Ecorys	ifo
Forecast period	2008-2018	2015-2025	2017-2027	10-20 years
No. Of Scenarios	7	5	5	3
Tariffs reduction	100 % of goods 75 % of services	100 %	98 - 100 %	100 %
NTM reduction in reference scenario	25 %	25 %	25 %	Reduction corresponding to trade creation effect

Main Findings (different scenarios, percentage changes compared to baseline scenario within forecasting period)				
EU GDP	0.32 - 0.72	0.0 - 0.5	0.02 - 0.48	0.52 - 1.31 ⁺⁺
US GDP	0.13 - 0.28	0.0 - 0.5	0.01 - 0.39	0.35 - 4.82 ⁺⁺
EU bilateral exports	not specified	49.0 ⁺	0.69 - 28.0	5.7 - 68.8 ⁺⁺
EU total exports	0.91 - 2.07	7.6 ⁺	0.16 - 5.91 (extra-EU only)	not specified

Source: Ecorys (2009), CEPII (2013), CEPR (2013), Bertelsmann/ifo (2013)

* Findings for ambitious and limited scenarios only;

+ Reference scenario only; ++ Derived from BMW/ifo (2013), aggregated to EU-27 level

Employment and real wage effects

	Ecorys (2009)*	CEPII (2013)	CEPR (2013)	Bertelsmann/ifo (2013)
Main Findings (different scenarios, percentage changes compared to baseline scenario within forecasting period)				
EU real wages	0.34 - 0.78	<i>not specified</i>	0.29 - 0.51	<i>Positive but not specified</i>
Unemployment rate (in European OECD countries only)	unchanged (assumption)	unchanged (assumption)	unchanged (assumption)	- 0.42 (deep liberalization scenario)
No. of Jobs created (in European OECD countries only)	unchanged (assumption)	unchanged (assumption)	unchanged (assumption)	1.3 million (deep liberalization scenario)

Labor markets only modeled in one out of four studies

→ *positive real wage effects*

→ ***Positive employment effects*** (however, large differences between BMWT/ifo and Bertelsmann/ifo results)

2. Estimated gains depend on NTM reductions

- a) Average tariff rates in EU/US trade are below 3%
- b) Roughly 80% of economic gains depend on reduction and alignment (harmonization, mutual recognition) of Non-Tariff-Measures, i.e. laws, regulations and standards
- c) Critical factor is quantification of NTMs – no robust methodology yet available!
- d) Ecorys (2009) estimates NTMs to represent an average tariff cost equivalent of 17%, academic literature would suggest some 3%!
- e) NTM quantification depends on biased survey design: quantification of trade cost equivalents of NTMs is based on company survey and interviews of business-related experts:
 - Conflict of interest leads to upward bias– EU exporters want to export to US and vice versa
 - Other stakeholders (trade unions, civil society, consumer groups etc.) have not been consulted

3. Social costs of regulatory change might be substantial

- TTIP-studies (in particular Ecorys) assume that NTM-reduction/alignment can be done without social costs to society.
- BUT: regulation is welfare-enhancing, i.e. it serves public policy goals and corrects for market failure!
- THUS: NTM reduction/alignment will result in social costs, unless compensated for by other equivalent measures. These costs are difficult, if not in some cases impossible to predict, but might be substantial.
- PROBLEM: TTIP results depend on NTM reductions in sensitive sectors: in order to report positive welfare changes, TTIP-studies assume both high actionability and substantial reductions of NTMs in sensitive sectors (food & beverages, chemicals, pharmaceuticals and cosmetics), without taking into account concomitant negative changes in regulatory quality and thus social costs

4. Macroeconomic adjustment costs are not negligible

i) Public Budget Balance

Tariffs on US imports:
€2.6 billion

Tariff revenues as
source for EU budget
(12% in 2012)

Revenue loss of
~2.5% of EU budget

→ ***Adverse short and medium term effects neglected in TTIP studies***

ii) Unemployment

Assumption: no change in
absolute unemployment after
transmission period,
but ***sectoral displacements***

0.4 - 1.1 million workers could
be affected EU-wide

Short-term unemployment,
retraining costs, foregone
taxes

**Risk of long-term
unemployment** for certain
groups of workers

Adjustment costs – a rough calculation

	Lower Bound (cumulative, 10 year period)	Upper Bound (cumulative, 10 year period)
1. Loss of Public Revenue		
<i>Sub-Total</i>	23,400,000,000	36,000,000,000
2. Costs of Unemployment		
<i>a. Unemployment Benefits</i>		
<i>Sub-Total</i>	5,438,640,000	13,912,800,000
<i>b. Foregone Public Income from Taxes and Social Contributions</i>		
<i>Sub-Total</i>	3,875,439,500	9,913,915,000
Cumulative Adjustment Costs - TOTAL	32,714,079,500	59,826,715,000

Assumptions: Average duration of long-term unemployment during TTIP implementation phase: 5 years; Average duration of short-term unemployment during TTIP implementation phase: 0.5 years; Number of displaced persons post-TTIP: 430.000 (lower bound) - 1.100.000 (upper bound), of which 90% short-term and 10% long-term unemployment.

➔ **Total Adjustment costs of up to €3 – 6 billion p.a. over 10 year period, excluding (i) retraining costs, and (ii) wage reductions of re-employed workers**

5. Other adverse effects are downplayed

5.1. Trade & income reductions for LDCs:

Global trade diversion with negative consequences for GDP growth potential in low income countries

- *Real GDP decline in Latin America (-2.8%) and Sub-Saharan Africa (-2.1%) expected (Bertelsmann/ifo and BMWT/ifo)*
- CEPR includes *spill-over effects* which avoid negative effects for ROW countries
- Conflict with EU Policy Coherence for Development - Principle

Change in real GDP by Income Groups (number of countries included by ifo)					
Low Income (18)	Lower Middle Income (25)	Upper Middle Income (36)	High Income: non- OECD (16)	High Income OECD (31)	TTIP Countries (28)
-1.40 %	-1.75 %	-1.90 %	-1.52 %	1.44 %	2.93 %

Source: own calculations based on BMWT/ifo 2013, Table A.II.6; Weighted average by 2007 GDP data

5.2. Reduction of Intra-EU trade possible

	CEPR (2013)		CEPII (2013)		BMWT/ifo (2013)
Relative to baseline scenario in year	2027		2025		long term / <i>changes in bilateral trade between 25 countries (selected EU countries)</i>
	<i>in %</i>	<i>in bn €</i>	<i>in %</i>	<i>in bn €</i>	<i>in %</i>
Total extra-EU Exports	5.9	220	7.6	275	34
Intra-EU exports	- 1.6	- 72	- 2.2	- 94	- 30
Total EU Exports <i>(including intra-EU exports)</i>	1.8	148	2.3	181	- 13

Source: CEPR (2013), CEPII (2013) and BMWT/ifo (2013); own calculations in italics

Intra-EU trade negatively affected by TTIP (replaced by US imports)

→ extra-EU exports pushed by trade with the US

→ ***Limited total EU export*** gain (CEPR, CEPII), potentially negative in the long run

5.3. Regulatory Chill of Investment Protection

❑ Definition of Investment:

Not only FDI, but might include **portfolio investment** similar to CETA

→ short term and speculation-driven capital movement with adverse effects

❑ Investor-to-State-Dispute settlement (ISDS)

- gives investors the right to sue states before international arbitration panels
- Parallel system of effectively privatized adjudication (no appeals mechanism, no impartiality of judges, limited transparency)
- Strong increase of number of ISDS cases (58 new cases in 2012, mainly EU and US investors involved); if ISDS included in TTIP:
 - adverse „**chill effect**“ with regard to future regulations
 - compensation payments financed by taxpayers

➔ Economic case of Investment Protection for attraction of FDI in LDCs is weak, FDI driven by size of market, labour costs, infrastructure et al.

II. The Geo-Politics of TTIP

1. TTIP as 'economic NATO'?

1. US bilateralism via TPP and TTIP intended as strategy to curb geo-political and economic emergence of BRICS-countries. Two instruments:

- a) Rising strategic interest of US for Pacific Region → TPP as instrument to isolate China
- b) TTIP as instrument (i) to bind EU as junior partner, (ii) to isolate Russia

2. Discursive strategy by US and EU:

- a) TTIP is portrayed as a necessary means to uphold liberal international economic order and normative power of Western values against authoritarian state capitalist models of BRICS.
- b) TTIP is portrayed as setting new 'gold standards' for international regulation of trade and investment, which will confer first mover advantages to US and EU, and will have to be adopted by ROW.

2. TTIP as a mechanism to access cheap US energy?

US shale gas and oil boom has substantially reduced US energy costs. Hope is that via TTIP EU would be able to import substantial quantities of US natural gas and thus reduce import dependency from Russia.

BUT:

- Exports of US shale gas require approval from US administration
- Doubtful, whether sufficient quantities will be available for exports to EU (US gas reserves could be depleted towards 2020)
- High transportation costs (LNG transport) will make US gas probably more expensive than gas from Russia

➔ Case for ample & cheap natural gas from US unconvincing

III. Conclusion

1. Economic case for TTIP is weak at best
2. Social costs in terms of de-regulation and the loss of democratic policy-space might be substantial
3. The geo-political agenda of TTIP is both unconvincing ('gold standards', cheap energy) and dangerous (confrontational line against BRICS).

ÖFSE Reports on TTIP

English editions:

Full Report:

http://www.guengl.eu/uploads/plenary-focus-pdf/ASSESS_TTIP.pdf

Summary:

http://www.oefse.at/fileadmin/content/Downloads/Publikationen/Polycynote/PN10_ASSESS_TTIP.pdf

French edition:

Full report:

<http://www.guengl.eu/uploads/publications-documents/ASSESS-TTIP-%C3%96FSE - fr.pdf>

German edition:

Summary:

http://www.oefse.at/fileadmin/content/Downloads/Publikationen/Polycynote/PN10_ASSESS_TTIP_dt.pdf

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Fontagné, L./Gourdon, J./Jean, S. (2013): Transatlantic trade: Whither partnership, which economic consequences? In: CEPII, Policy Brief, 1, September 2013.

Bertelsmann/ifo

Felbermayr, G.J./Heid, B./Lehwald, S. (2013): Transatlantic trade and investment partnership (TTIP): Who benefits from a free trade deal? Part 1: Macroeconomic Effects. In: Bertelsmann Foundation [http://www.bfna.org/sites/default/files/TTIP-GED %20study %2017June %202013.pdf](http://www.bfna.org/sites/default/files/TTIP-GED%20study%2017June%202013.pdf) (03/24/2014).

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Thank you for your attention!



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