TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP (TTIP)
REMARKS
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It is a particular pleasure to be in this Center. I served on the board during the Carter and Reagan Administrations, and as a Visiting Scholar after the Clinton Administration during which I wrote my book on my Holocaust negotiations, “Imperfect Justice”. And the Wilson Center’s outstanding President and CEO is one of my closest and longest-standing friends and colleagues, Jane Harman, who I have known since we worked in the 1964 LBJ campaign, and with whom I worked in the Carter White House.

The Wilson Center’s sense of timing for this event could not have been more propitious, as only yesterday President Obama sent his formal notification to Congress of his intention to enter into negotiations with the European Union (EU) on the Transatlantic Trade and Investment Partnership (TTIP).This establishes a timeline which will permit negotiations of a sweeping trade and investment agreement as soon as 90 days from this notification. More than a dozen years ago in testimony before the Senate Foreign Relations Committee, I called for a transatlantic free trade agreement, and in 2010 before the House Ways & Means Committee I called for a Barrier Free Transatlantic Marketplace, focusing on reduction of regulatory and non-tariff barriers.

I am co-chairman, with former EU Ambassador Hugo Paeman, of the Transatlantic Business Council, the result of a recent merger of the Transatlantic Business Dialogue I created with the late, great Secretary of Commerce Ron Brown, when I was Ambassador to the EU, and of the European-American Business Council, which Hugo and I co-chaired. We have a truly outstanding, experienced and visionary leader in Tim Bennett, our new Secretary General. But I speak on my own today, since TBC is developing its positions now. Permit me to say at the outset, that I have been greatly informed by Jeff Schott, and the excellent paper he and the Peterson Institute for International Economics recently produced on the TTIP.

I. HISTORIC CONTEXT AND IMPORTANCE

If successful, this will not simply be another of the scores of free trade agreements around the world. As a former U.S. Ambassador to the EU, I would like to put this into a larger context.

For one thing, after a rather limited trade agenda in the beginning of his first term, during the latter half of his first term and at the start of his second term, President Obama is to be congratulated for embarking on the most ambitious trade agenda in recent memory, simultaneously putting into motion (1) negotiations for the Transpacific Partnership (TPP), with key Asian and South American countries, Canada and Mexico, now including Japan; (2) the TTIP, thereby covering both the Asia-Pacific and transatlantic space; and (3) negotiations on the International Services Agreement and expansion of the Information Technology Agreement. The key person is making this happen is Michael Froman, the President's deputy national security adviser and key international economic adviser, to whom we owe a great debt of gratitude.

Concluding these initiatives, but in particular the TPP and TTIP, by the end of his term as President would be a legacy of enormous importance, and it is one that is likely to garner more bipartisan support than almost any other economic initiative, since the Republican Party has long been a supporter of free trade agreement. Because the EU nations have at least as high, if not higher, labor standards and environmental protections, the traditional opponents of free trade agreements, often part of the Democratic Party's base, are unlikely to oppose TTIP, as they have smaller bilateral or regional agreements with smaller, less developed countries. Moreover, unlike other trading relationships, US trade with the EU is largely balanced, with \$463 billion in US exports to the EU in 2012 and \$534 billion in imports from the EU countries.

In addition, there has never been a bilateral negotiation of this scope or dimension. The TTIP dwarfs any previous regional agreements. The EU and US together account for almost half of global output of goods and services and almost a third of global trade—almost \$1 trillion annually. There is over \$3.5 trillion in two-way foreign direct investment between the US and the 27 EU countries. American companies invest more in Ireland than in China. In fact, 70% of job-creating foreign investment in the US is from Europe, and US exports to the EU support more than 2.2 million American jobs. EU affiliates in the US employ more than 3 million jobs.

Moreover, the comprehensive ambition of TTIP far exceeds any other bilateral, regional, or even multilateral agreement, covering the following areas set out by the US-EU High Level Working Group (HWLG) on Growth and Jobs: tariffs; services; investment reforms and protection; government procurement; WTO-plus rules on sanitary and phyto-sanitary issues (SPS); intellectual property rights; trade facilitation; competition policy; labor and environment.

But there is another unique dimension to transatlantic trade, and that is the high degree of integration across "the Pond". Intra-firm trade between US and EU parent companies and their subsidiaries account form some 40% of the trade between us. Annual transatlantic sales between foreign affiliates between the US and EU markets exceeds \$4 trillion per year.

I want to stress that far from undercutting the WTO multilateral trade regime, which has hopelessly stalled in the Doha Round after more than 9 years of fruitless negotiations, a successful TTIP can create positive pressures (See Uri Dadush, "Don't Buy the Hype on the Transatlantic Trade Deal", March 18, 2012, Carnegie Endowment for International Peace) on key countries to liberalize their own trade policies, and possibly shift their position on the Doha Round, for fear of being left behind. As Jeff Schott and Cathleen Cimino put it, "it could become a template for the stalled global trade talks in several difficult areas, from agriculture to cross-border rules on services, investment and regulations."

While the US is more advanced in our recovery, both sides of the Atlantic are suffering from sub-par economic and job growth, with high levels of unemployment. The TTIP is a deficit free stimulus to growth and jobs. Since 2006, US-EU trade has been growing at only an average annual rate of 3.8%. A successful TTIP can add anywhere from 0.5% to 1% gains in GDP in both the US and the EU. It can also set of template of common US-EU standards that the world will have to follow.

Last, the TTIP has major geo-political importance. At a time when many in Europe worry that America's "pivot" toward Asia will diminish our interest in Europe; at a time when the Euro-crisis and slow growth on the Continent have sapped optimism from European publics, the launch of this negotiation sends an important signal that America remains dedicated to Europe. It is critically important to reinvigorate the transatlantic relationship because it is the European nations with which we share core values of democracy, free speech, respect for human rights and the rule of law. Europe is our key ally as we face difficult global challenges, from nuclear threats from Iran to North Korea, from the Arab revolutions to climate change. Permit me to say without being hyperbolic that there are essentially two competing models of governance in the post-Communist world. One is the transatlantic model shared by many other countries, based upon democratic governance, with free peoples, free markets, and free trade; the other is autocratic governance, state-controlled or dominated economies, and managed trade. The TTIP is an opportunity to show the world that our model of governance can produce tangible gains for our people on both sides of the Atlantic and more broadly is the best model to meet the challenges of the 21st century.

II. BASIS FOR OPTIMISM: THE KEYS TO SUCCESS

The very ambition of the negotiations creates a daunting set of challenges for the US and EU. But there are several features which make it more manageable.

For one thing, we have a political commitment to success at the highest levels of the US and EU governments, with President Obama putting his prestige behind this by announcing it in his State of the Union address, and with the EU determined to tighten its relationship with the US at a time of great economic trauma and political upheaval.

Second, the TTIP negotiations will not begin from a dead start. The HWLG has been working for over a year and its interim report of June, 2012 and final report on February 11, 2013 set a framework for the talks, and committed the two parties to bridge gaps and differences. But more broadly, the US and EU agreed to make the foundation for the TTIP the most comprehensive tree trade agreement each side has entered— for the US the Korea-US FTA (KORUS-FTA) and for the EU the Korea-DU FTA (KOREU FTA).

As the Peterson Institute brilliantly analyzes, this means that the two pacts with Korea are similar in many respects and can be harmonized as a first order of business into a workable framework agreement in fairly short order, giving each other what each gave to Korea; while there are differences, they are not insurmountable.

If, as is almost certain, the TPP negotiations finish first, this could also serve to grease the wheels for the TTIP, and raise the level of ambition reflected in a final TTIP agreement.

Third, contrary to many who dismiss as inconsequential the recommendation of the HLWG to "substantial elimination of tariffs upon entry into force and phasing out all but the most sensitive of tariffs within a short time frame", since tariffs only average around 3% between the US and EU, there is a large payoff because the volumes of trade is so enormous, that reducing even small tariff barriers can yield significant gains. A study by ECIPE (cited in the March 18, 2013 Peterson Institute report) finds that eliminating tariffs would boost EU exports by 7% and US exports by 8% within a few years. Also, by reducing input costs for EU and US companies integrated across the Atlantic, it will make them more competitive in global markets.

In fact, the tariffs on agricultural products are much higher, and even in the manufacturing sector, as Uri Dadush, former director of international trade at the World Bank has noted (Carnegie, March 18, 2013), there are high tariffs on some products, from automobiles to apparel. Substantial tariff elimination would provide as much benefit to US companies as the entire last deal on the table at Doha.

Fourth, both the US and EU are increasingly service-oriented economies, and there is a common commitment from the HLWG to "bind the highest level of liberalization that each has achieved in trade agreements to date". As the Peterson Institute notes, there will be hard work ahead to "open new market access opportunities and harmonize regulatory policies across different sectors like finance, insurance, and telecommunications". The ongoing plurilateral International Services Agreement, in which 21 WTO members, including the EU and US are participating, can offer an opportunity to schedule services commitments there (see Jeff Schott, Peterson Institute). The TBC companies strongly believe that financial services must be part of the TTIP negotiations to avoid regulatory fragmentation of EU and US financial services markets, which would frustrate efforts of international bodies such as the G20 and the Financial Stability Board.

Fifth, there is a solid foundation for progress on investment liberalization and protection given the commitment by both sides to base negotiations on the highest levels negotiated in FTAs to date.

Sixth, our TBC companies on both sides of the Atlantic are dedicated to support a strong IP chapter with positive commitments regarding patents, copyright, trade secrets, and other forms of intellectual property in the TTIP, since intellectual property remains essential to economic expansion, innovation and competitiveness. IP-intensive industries are linked to 35% of US GDP and nearly 30% of all US employment, and the EU is no less reliant. An IP agreement would also strengthen IP standards globally. The support of the transatlantic business community can help US and EU negotiators find common ground.

Seventh, there is a potentially big payoff with opening up more government procurement opportunities to our respective companies, as the HLWG has pledged. Again, the respective Korea agreements offer a template. As the Peterson Institute recommends, the US should liberalize the federal “Buy American” preference as part of a broader effort to expanded coverage of federal and state/local procurement. The Government Procurement Agreement (GPA) only covers 3.2% of US government procurement (the EU has opened 15% of its government procurement market. So there is a great deal of room for mutually beneficial improvement.

Eighth, there is a common desire to develop rules and disciplines for state-owned enterprises (SOEs) to provide a fair and level playing field for both US and European companies who must face heavily government owned or controlled companies in global markets, and in their own.

III. THE BIGGEST CHALLENGES

While the TTIP offers enormous potential benefits to our respective economies, no one should be under any illusion about the difficulties that lie ahead. With the best of intentions, the sheer breadth of issues, and the different approaches in several key areas, particularly on regulation, means that it will likely take several years to complete a truly comprehensive agreement.

First, each side has structural, political barriers that must be overcome. For the EU, as I saw personally in years of negotiations with the EU on a wide variety of subjects from trade to sanctions, negotiations with the European Commission must also take into account the particular interests of individual member states, especially in areas with the greatest potential benefit, like agricultural tariffs and regulations.

On the US side, while it is not necessary to launch the negotiations or to negotiate in the early stages, the absence of Trade Promotion Authority will make an agreement very difficult and perhaps impossible to conclude. The EU will not want to negotiate with the Obama Administration and then have to negotiate all over again with the Congress. The EU must have confidence that what it negotiates with the Administration will be accepted by Congress, and only Trade Promotion Authority can assure this. I feel certain the Administration will seek this sometime this year, and discussions are already underway between the Administration and Congressional leaders on trade, Chairman Baucus, Senator Hatch, Chairman Camp and Congressman Levin. When they do so, they should be advised to seek the broadest possible authority, to include the TPP, TTIP, International Services Agreement, Information Technology Agreement, other bilateral agreements, and even a future multinational WTO agreement. At the recent hearing in the Senate Finance Committee, leading Senators from Chairman Baucus to Ranking Member Senator Hatch seemed willing to supporting broad Fast Track Authority.

Second, agricultural issues are very difficult ones on both sides of the Atlantic. Geographical Indictors (GI) are especially difficult on the EU side. I know from my own experience as US Ambassador to the EU how politically charges the Common Agricultural Policy (CAP) is and how large a percentage of the overall EU budget goes in this area. But even here there are grounds for optimism:

- There was a tentative EU-US accord in the Doha Round on eliminating farm export subsidies.
- --On domestic agricultural subsidies, these have been significantly reduced in recent years under budget pressures to lower spending; as the Peterson Institute recommends, temporary ceilings on domestic subsidies both overall and by product sector would help ease budget pressures and stimulate the WTO talks.
- The EU has moved away from the product based domestic subsidies during my tenure as US Ambassador to income support for European farmers, which is expensive and unrelated to production, but is not trade distorting.
- If the EU and US can agree on agricultural subsidy reductions, this can apply bilaterally, but can then be taken to the WTO for multilateral agreement, which is not granted, means third countries would be at a competitive disadvantage for their agricultural products.
- With commodity prices high, US subsidies are less costly now.

Third, the biggest potential benefit to a TTIP is in the area of regulation. In 2009, the EU estimate that aligning and rationalizing transatlantic non-tariff measure would bring a gain of $158 billion in additional GDP and additional 2% in exports to the US, and it estimated the US would gain over 450 billion in annual GDP and a full 6% more in annual exports to the EU in electrical goods, chemicals, pharmaceuticals, financial services and insurance.

There are sharply divergent regulatory approaches, with the EU employing the “precautionary principle”, opposing GMO products, using less science-based, risk-based regulation than the US, and having no EU counterpart to the US Administrative Procedures Act. The Sanitary and Phyto-sanitary measures are particularly challenging.

In the 1990s, during the Clinton Administration, after the signing of the New Transatlantic Agreement of 1995 and the creation of the Transatlantic Business Dialogue (TABD), there was a burst of activity to negotiate Mutual Recognition Agreements. We negotiated a few in the Clinton years and only one was done in the Bush Administration. But doing these on a sector-by-sector basis is time consuming, with small payoffs. US regulatory agencies do not have a global view and respond to domestic mandates and congressional oversight. I vividly remember a meeting in the EOB with the Food and Drug Administration to try to implement the notion of “tested once, tested in both markets”. But the FDA refused to agree that the testing labs in every member state were up to their standards. In the biotech area, in 2011, the EU approved “only six biotech products with an average approval time of 57 months” (Peterson report).

In fact, we should have confidence in the 21st century that the regulatory standards in both the EU and US are adequate to protect our publics and should be accepted, for example with GAAP and International Accounting Standards, both of which adequately protect investors, without requiring costly reconciliations by corporations. The Common Market operates on the basis of mutual recognition of the member states' varying regulations. Mutual recognition is a sounder basis for regulatory cooperation than actual harmonization. In general, TBC and its predecessor TABD generally would like to see agreement on common processes, approaches and mandates for regulatory agencies, sub-federal entities in the US and member states as much as possible, and, critically important, to make the regulatory processes as open and transparent as possible. It is unlikely all regulatory issues can be resolved during the initial negotiations, and this should not preclude closing a TTIP agreement. What is important is progress in reducing regulatory dissonance, duplication, and contradictory regulations, and mechanisms for continuing work on regulatory issues. As a practical matter, I suggest the following

-- Strengthen the High Level Transatlantic Regulatory Council of key US and EU regulators to develop common approaches to regulation, with an overarching Framework Regulatory Accord, that would embody many of the principles of transparency embodied in the Administrative Procedures Act;
--Find areas where identical standards can be adopted, for example in the automobile area where the European and American industries are so deeply integrated that common safety standards can be adopted, e.g. on bumpers for safety, where BMW must have different standards for its cars manufactured in Germany compared to those made in its plant in South Carolina.
--Adoption of the principle wherever possible to "tested once, tested in both markets", even if it is to each other's standards rather than one standard.
-- A transatlantic impact statement for all regulations over a certain economic impact, with notice to the other side, and opportunity to comment;
-- Agreement on common regulatory standards, like sound science-based approaches, and using the least costly alternative to achieve the desired result;
--As TABD suggested last fall to the HLWG a "harmonized legislative framework to recognize and adopt international standards, not limited to just those developed by ISO, ITU, and IEC but any international body that meets the criteria set forth by the WTO Committee on Technical Barriers to Trade."
-- Interoperability of product standards that will work equally on both sides of the agreements.
-- Develop of common EU-US standards on major new products, where there are no legacy issues, such as Internet-based products and services.

There will not be perfection in this area, but there is great room for progress. Indeed, there has been progress. The EU has begun to approve GMO products at a rate Hiddo Houben, head of trade policy at the EU Delegation to the EU, indicated is one every two to three months, reducing the large backlog. And there have already been some confidence building steps taken on SPS regulations, for example on the use of lactic acid on imported beef from the US, which indicates that progress toward reducing regulatory barriers is possible.

IV. CONCLUSION

The US and EU are about to embark on a truly historic effort. I am optimistic that there is so much at stake, economically and politically, that it will succeed, and stand as a landmark and model for what free peoples in democracies can achieve for greater job-creating trade and investment across the Atlantic and around the world.

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