ASSESS_TTIP:

Assessing the Claimed Benefits of the Transatlantic Trade and Investment Partnership (TTIP)

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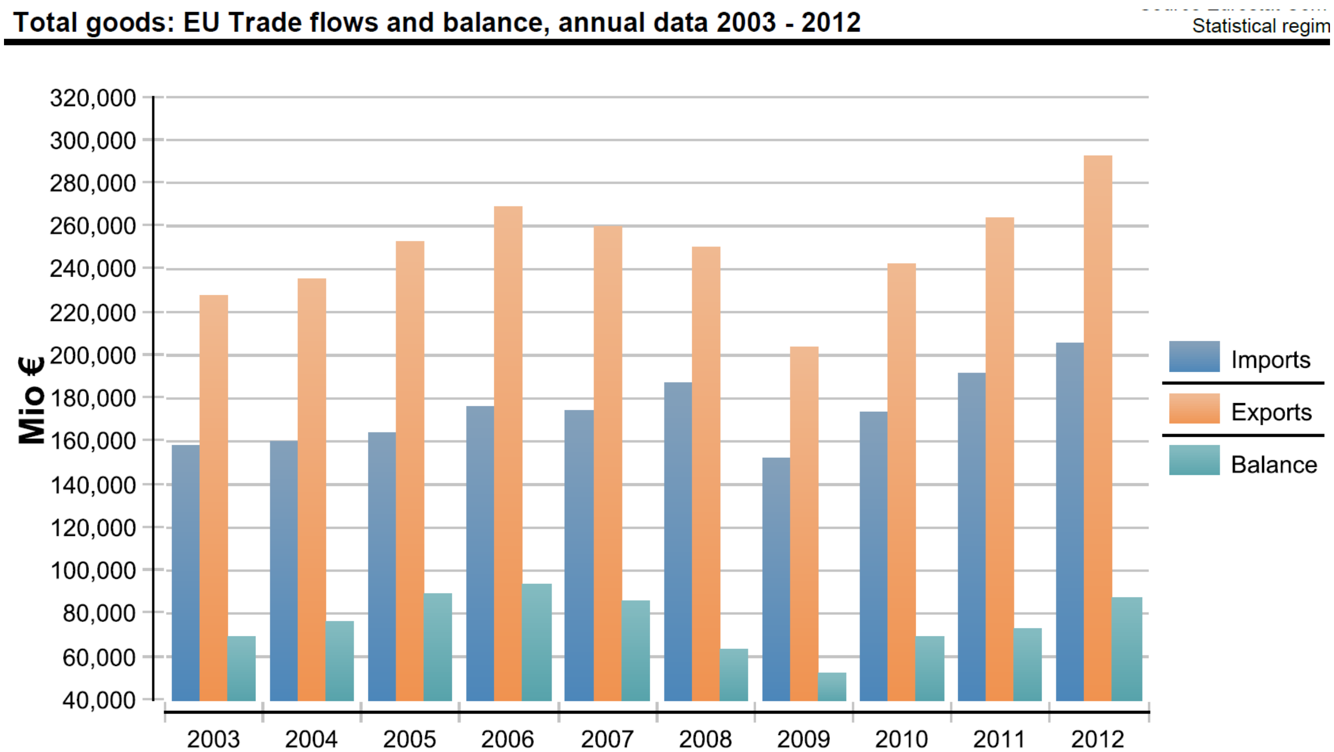
0. TTIP Negotiations – Aim and Scope

- Start of negotiations in July 2013, meanwhile four 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

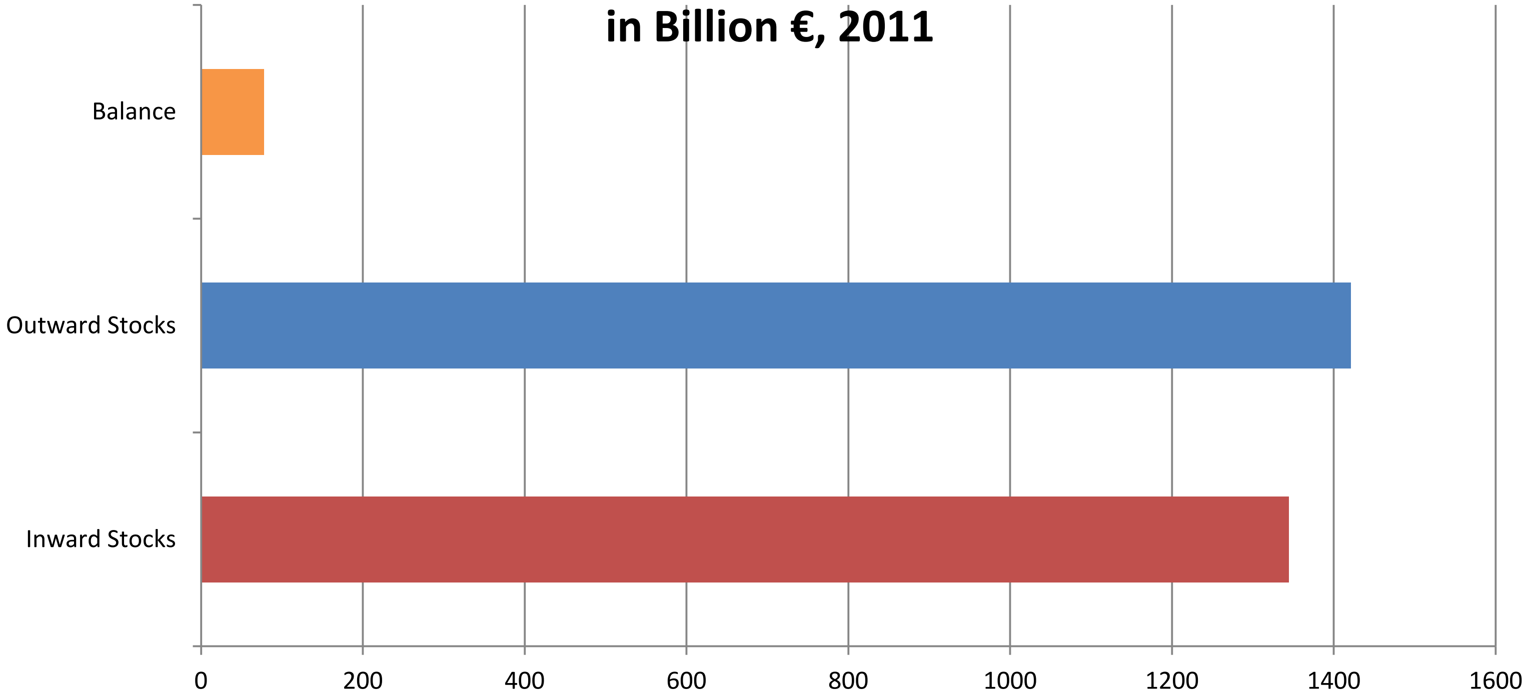
0. EU – US Trade



➔ 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), CEPII (2013) and Bertelsmann/ifo (2013)**
- Identification and quantification of ***neglected effects***
- Assessment of ***technical model specifications***

Research Team:

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II. Main Results

1. Estimated gains of TTIP-studies are small
2. Gains critically depend on NTM reductions/alignments
3. Socials 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				***Related to BMWT/ifo (2013)***
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 BMWT/ifo (2013), aggregated to EU-27 level

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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**	*not specified*	**0.29 - 0.51**	***Positive*** *but not specified*
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, reguations 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/aligment 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

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

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

Adjustment costs – a rough calculation

1. Loss of Public Revenue	Lower Bound (cumulative, 10 year period)	Upper Bound (cumulative, 10 year period)
Sub-Total	***23,400,000,000***	***36,000,000,000***
2. Costs of Unemployment		
a. Unemployment Benefits		
Sub-Total	***5,438,640,000***	***13,912,800,000***
b. Foregone Public Income from Taxes and Social Contributions		
Sub-Total	***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***

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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

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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 / *changes in bilateral trade between 25 countries (selected EU countries)*
	in %	*in bn €*	*in %*	*in bn €*	*in %*
Total extra-EU Exports	5.9	220	7.6	*275*	*34*
Intra-EU exports	***- 1.6***	**- 72**	***- 2.2***	***- 94***	***- 30***
Total EU Exports *(including intra-EU exports)*	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

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5.3. Regulatory Chill of Investment Protection

- ***<u>Definition of Investment:</u>***

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

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

- ***<u>Investor-to-State-Dispute settlement (ISDS)</u>***

  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, infrastructrue et al.

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Thank you for your attention!

Downloads:

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

Policy Note:
http://www.oefse.at/Downloads/publikationen/policynotes/PN10_ASSESS_TTIP.pdf

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