

The Transatlantic Trade and Investment Partnership (TTIP): Towards regulatory convergence?

Workshop, Bruegel, 18 July 2013

The workshop was conducted under Chatham House rules; consequently no views expressed will be directly attributed. The session offered the opportunity to discuss a range of strategic, pragmatic and economic issues around TTIP. The underlying theme was that we should not regard the TTIP negotiations as *sui generis*; they fit into a frame of previous negotiations and of the global shift towards PTA-based trade liberalization. But in spite of this, there are key differences and implications whose recognition will be critical for the success of the agreement.

The session was divided into two panels: first, on the prospects and implications of regulatory convergence. Some participants emphasized that the speed of progress in negotiations has been surprising, with the initial round due to end in 2014. This reflects deep mutual political will with the support of key industries. But why now, when many previous attempts have been so slow? Several factors were cited as explaining how this time is different: the failure of the Doha round, the crisis-induced transatlantic pressure for job creation, and the relative decline of the EU and USA in the global economic order and the subsequent fear of new global regulators. Multiple speakers argued that if the Doha round had not stalled then there would be no need for TTIP: the choice of institution is pragmatic, not ideological. It was also stressed that trade barriers between the US and EU are already relatively low. While participants agreed that much could be achieved before 2014, this represents just the first step in an economically and politically difficult process.

The second theme centered on pragmatics. It was emphasized that there are no ready-made solutions for TTIP. This reflects, it was argued, TTIP's malleability: it is still too early to declare certain sectors such as financial services 'in or out'. In terms of which sectors are likely to benefit most by 2014, automotive and pharmaceuticals were cited. A great emphasis was put on the fact that TTIP is not about deregulation and the lowering of standards, but rather about the elimination of wasteful and inefficient rules – both existing and future. To do this will require incentivizing the regulators themselves by minimizing their administrative burden. Yet given the quantity of new rules propagated, doing this efficiently will be difficult: participants differed over whether top-down approaches would be preferable to more case-specific approaches. Finally, participants were unified in their belief about the legitimacy of TTIP: transparency should be its guiding principle, with strong public oversight and the heavy involvement of industry and consumers. Without such legitimacy, it would be hard to guarantee that the *application* of standards would converge.

The third theme of discussion centered on the global implications of the agreement. One participant argued that TTIP could act as a test laboratory for future similar agreements, in order to fill gaps in the existing multilateral system. TTIP should act as a signal and a contribution towards the global trading system – not a fundamental re-prioritization. By setting a 'gold standard' for regulatory quality, there would be positive spillovers on other similar agreements. But discussants agreed that it was hard to avoid the appearance that TTIP could be construed as 'west against the rest'. Any developments would be viewed with great suspicion from Asia (particularly China). There was an evident tension between the fear of new rising regulatory powers and the image of TTIP negotiations, which will be difficult but critical to reconcile.

The second panel asked what the experience of the European single market could tell us. One of the participants presented estimates of the gains from the TTIP, emphasizing that, based on the experience of past PTAs, the gains from liberalization are much larger than just removing tariffs or converging regulation. A simulation based on previous 'deep liberalization' scenarios estimated as much as a 5% real GDP per capita level effect across the EU, but these gains are highly varied across the EU and depend on initial trade levels and existing barriers to trade. Some objected that the estimates presented were substantially higher than those cited elsewhere, but they can be seen as a 'best case' scenario. While we should expect significant benefits, it is difficult to predict the exact source of these gains.

A common theme in the second panel focused on intra-EU heterogeneity and what it could imply. For example, analysis of Product Market Regulations reveals significant divergences within Europe, and European trade costs have reduced at a slow pace over the last 20 years (more so in goods than in services). Participants questioned what a comparative analysis within the US would imply, but few empirical studies have attempted to answer this. However, the point was also advanced that such remaining barriers are not always a bad thing: for example, they may inadvertently benefit consumers by permitting a broader range of available final goods. Learning from past agreements, a few points were emphasized: the need for hard legal oversight, unconditional mutual recognition, and questioning whether 'regulatory convergence' is even a coherent concept: discerning the *ex ante* optimality of regulation is a complex and perhaps impossible task.