

Transatlantic Relations and Global Economic Governance: The TTIP in a Geopolitical Context

Nuno Gama de Oliveira Pinto*

Center for International Studies, IUL –Team Europe/European Commission – Lisbon, Portugal

Abstract

The Transatlantic Trade and Investment Partnership (TTIP) aims to open up trade and investment between the European Union (EU) and the United States (US), which together make up 40% of global economic output. The EU and the US have their eyes on more than just removing the remaining low tariffs, which currently stand on average at around just 4%. The main hurdles to trade comprise so-called “behind the border” regulations, “non-tariff barriers” and red tape. Up to 80% of the gains from a trade deal are expected to come from the lower costs of bureaucracy and regulations arising from a deal, as well as from opening up trade in services and public procurement (purchases of goods and services by governments and local authorities). The key phrase is regulatory cooperation, creating similar regulations from the outset, rather than having to try to adapt them later. A more integrated transatlantic marketplace would respect each side's right to regulate the protection of health, safety and the environment at a level it considers appropriate. But by aligning their domestic standards, both sides could set the benchmark for developing global rules, benefiting EU and US exporters, and the wider global trading system.

Keywords

TTIP, International Trade, Investment Protection, European Fund for Strategic Investments, Project Finance, Private Funding

Received: April 21, 2015 / Accepted: May 22, 2015 / Published online: June 23, 2015

@ 2015 The Authors. Published by American Institute of Science. This Open Access article is under the CC BY-NC license.

<http://creativecommons.org/licenses/by-nc/4.0/>

1. Introduction

The Transatlantic Trade and Investment Partnership (TTIP) is being negotiated between the White House and the European Commission to unite two of the most important regions in the world (the EU and the US) forms part of the current proliferation of free trade agreements¹, both bilateral and multilateral. The objective: to create an integrated economic area without customs tariffs for manufacturing and agricultural products and with standardised regulations to encourage investment and trade in services.

In short, the TTIP is attempting to become an agreement that significantly boosts the flows of trade and investment on both

sides of the Atlantic. Should it come about, it would be the biggest agreement in history in terms of the economic weight of both parties: they represent close to 50% of the world's GDP, account for around 30% of international trade for manufacturers and 40% for services, and receive over 30% of the world's direct investment.

The US is the main trading partner of the EU and vice versa, and the US invests half its annual Foreign Direct Investment (FDI) in the EU, while the EU's investment in the US accounts for two thirds of the FDI received by the United States.

The European Commission published in 1998 a Communication entitled “The New Transatlantic Marketplace” in which it proposed ambitious measures to achieve better economic integration between the two partners, including the complete elimination of industrial

¹ The US economy itself is holding conversations to join the Trans-Pacific Partnership together with Japan and another 10 economies from the Asia Pacific region, while China has agreed treaties with Australia, Mexico and the US.

* Corresponding author

E-mail address: noggest@gmail.com

tariffs by 2010 and the creation of bilateral free trade area in services.

The process was unsuccessfully re-started in 2005 with the launch of the Transatlantic Economic Integration and Growth Initiative, and later, in 2007, with the creation of the Transatlantic Economic Council.

2. A Difficult Agreement

Although their economic relationship is substantial, different barriers hinder greater transatlantic links, especially barriers beyond the customs border as customs tariffs between both regions are generally moderate (on average below 3%).

These non-customs obstacles consist of factors such as quality and labelling standards, taxation and policies regarding competition and the environment, to name just a few. Their diversity and complexity means that it will be a much more complicated task to reduce or eliminate them than merely reducing custom tariffs.

In addition to the difficult goal of achieving common regulatory standards is the thorny issue of protecting the rights of investors in the host state without affecting the sovereignty of the EU or US itself regarding regulations that affect their own citizens.

On 27 March 2014, the European Commission launched an online public consultation on investment protection and investor-to-state dispute settlement in the Transatlantic Trade and Investment Partnership Agreement.

The consultation was structured around 12 key issues, concerning both substantive investment protection issues and Investor-State Dispute Settlement (ISDS) questions. It also featured an open general question, allowing respondents to submit general considerations.

The European Commission received a total of nearly 150,000 replies². The diversity of perceptions and interests amongst the respondents makes further discussion necessary.

The first part of the report contains an overview of replies by number, types (collective submissions, citizen submissions or organisations) and origin of responses (businesses, NGOs, academics, etc.) to identify general quantitative trends.

It also provides in a summarised form the general views expressed on the proposed approach as well as a summary of views expressed notably on the TTIP negotiations and ISDS.

The final decision on the elements included in TTIP will ultimately be taken by the Member States and the European

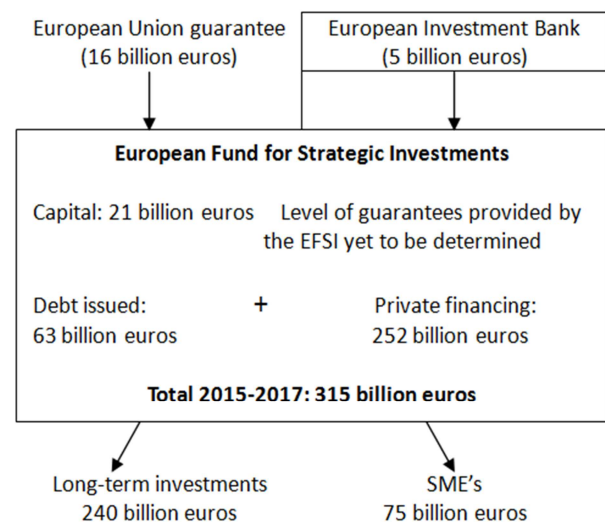
Parliament given their role in approving any agreement.

3. The European Fund for Strategic Investments

On 9 December 2014, for the first time in more than five years, the European finance ministers meeting in Brussels did not discuss savings measures, bailouts or painful reforms, but investments and the future: a novelty and the first merit of the investment plan presented by the European Commission president on 26 November. Jean-Claude Juncker has proposed that a European Fund for Strategic Investments (EFSI) be set up with EUR 21 billion in funding from the Commission and the European Investment Bank (EIB), with a view to raising a total of EUR 315 billion in public and private investment.

It will be based on three mutually reinforcing strands:

- First, the mobilisation of EUR 315 billion in additional investment over the next three years, maximising the impact of public resources and unlocking private investment;
- Second, targeted initiatives to make sure that this extra investment meets the needs of the real economy;
- And third, measures to provide greater regulatory predictability and to remove barriers to investment, making Europe more attractive and thereby multiplying the impact of the Juncker plan.



Structure of the European Fund for Strategic Investments.

The plan sets up a new entity, the European Fund for Strategic Investments, initially provided with capital totalling 21 billion euros from the European Commission (16 billion) and the European Investment Bank (5 billion).

Compared to existing structures, the fund will have a

² Online public consultation on investment protection and investor-to-state dispute settlement in the Transatlantic Trade and Investment Partnership Agreement (Report): http://trade.ec.europa.eu/doclib/docs/2015/january/tradoc_153044.pdf

different risk profile, provide additional sources of risk-bearing capacity and will target projects delivering higher societal and economic value, complementing the projects currently financed through the EIB or existing EU programmes.

The range of possible products will be open-ended in order to adapt to evolving market needs.

However, Europe's public sector has little margin to provide a widespread, significant boost in all countries given the delicate state of public accounts. Neither does the private sector, on its own, have much room to manoeuvre to finance investment projects as it is still immersed in deleveraging and battling with weak demand.

The aim of the Juncker plan is to unite the forces of both sectors, encouraging private investment in an environment of abundant liquidity which is nonetheless not being used to finance new projects.

The European Commission will also allow countries to contribute to the EFSI's capital without this increasing their general government deficit. Based on this initial capital, the plan is to issue around 60 billion euros of debt which will be used as a guarantee to attract a further 245 billion euros of private funding, thereby reaching a total of 315 billion euros in investments over three years, equivalent to 0.8% of Europe's annual GDP.

The kind of investments to be financed by the new European fund are long-term projects for strategic infrastructures (such as transnational energy connections, broadband, etc.), transport, education and R&D. Part of these investments might be made via project finance; i.e. private financing that is specifically created to carry out a certain investment project.

As a consequence of the economic and financial crisis, the level of investment in the EU has dropped by about 15% since its peak in 2007.

At present, Europe's project finance market is relatively undeveloped compared with other regions, partly due to differing legislation in each country, and the Juncker plan may help to improve this situation.

The EFSI will also inject capital and issue guarantees to help programmes to securitise loans to SME's and mid-cap companies. In addition, the EFSI's resources could also be used to invest in European Long-Term Investment Funds, the European collective investment framework for infrastructures, as well as in firms that require long-term capital.

It may be more difficult to attract private investors due to the limited capacity of public capital to absorb losses, a priori

restricted by the ambitious level of leveraging planned by the EFSI. It should be noted, however, that although the guarantees issued by the EFSI will be limited, they can improve the risk profile of projects and therefore the interest rate required to finance them.

Consequently, although the macroeconomic impact of the Juncker plan is uncertain, it is potentially considerable. On the one hand, the EFSI might end up financing projects that would have been carried out anyway and, if this is the dominant trend, the programme will have little impact. But if, on the other and, the guarantees provided by the EFSI are designed well, it could significantly speed up the implementation of projects that are currently shelved.

The Juncker plan should also help standardise legislation at a European level and reduce the obstacles represented by different sector regulations, boosting investment in Europe in general and project finance in particular.

The European Commission has proposed three key criteria: the projects should have a chance of profitability, be useful, and reflect European priorities (energy, digital, research, etc.). Above all, they must be capable of being implemented quickly in order to have an impact on the economy recovery.

The first projects and transactions earmarked for benefitting from an EU budget guarantee under the European Fund for Strategic Investments have been approved by the Boards of the European Investment Bank and the European Investment Fund in April 2015.

The EIB board approved loans totalling up to EUR 300 million for projects expected to be financed under the EFSI initiative that will support overall investment of around EUR 850 million for public and private sector projects.

Technical and financial due diligence for investments expected to be supported under the EFSI initiative, as well as financing of projects once loans are agreed, is being carried out by the EIB alongside ratification of the proposed structure and EU budget support for the new initiative by the European Parliament and Council.

The task force instructed by European finance ministers to identify potential investments has identified no fewer than 2000 projects worth some 1300 billion euros in the medium term, including new airport terminals, renovation of secondary schools, flood management systems, renovation of building's energy systems, internet infrastructure, support for research clusters and high-speed rail links.

The projects would be organised with the support of European Investment Bank and listed on a website that all private investors could consult.

4. Conclusion

The US is the EU's principal export destination for both goods (EUR 292 billion) and services (EUR 157 billion), and is also the Europe's primary partner both in outward (EUR 1.4 trillion) and inward (EUR 1.3 trillion) stock investment. Both regions share a past that, combined with their copious dealings today, makes them natural partners.

The conclusion of a Free Trade Agreement between these two trading blocs would therefore be the most relevant bilateral trade agreement ever concluded. If this were to happen, it would have important consequences, not only for the two partners, but also for the rest of the world.

As this agreement goes far beyond liberalising quotas and tariffs at the border, as well as affecting the 'power to regulate', it has a direct impact on both public administrations and economic actors (businesses, consumers, etc.) on both sides of the Atlantic.

Investment protection and Investor-State Dispute Settlement is not a new tool for European governments. The inclusion of such provisions in the Transatlantic Trade and Investment Partnership and in other agreements is also a natural consequence of the fact that such provisions have formed part of EU Members States' own investment policies for the past 50 years.

Some issues contained in the TTIP, such as ISDS have received broad coverage and continue to divide public opinion.

However, the potential impacts of this agreement are multi-layered and not always obvious. Potential risks can easily turn into opportunities and vice versa.

The EU Member states have over 1400 bilateral agreements with third countries in force, some also with the US and Canada, to encourage reciprocal investment. Almost all of these agreements provide for investment protection and ISDS in case there is a conflict between an investor and the host country. These bilateral agreements have all been agreed by national parliaments.

References

- [1] Baldwin, Richard E. & Charles Wyplosz (2012). *The Economics of European Integration*. Maidenhead: McGraw-Hill.
- [2] Bale, Tim (2013). *European Politics: A Comparative Introduction*. Basingstoke: Palgrave Macmillan.
- [3] Conti, Joseph A. (2011). *Between Law and Diplomacy: The Social Contexts of Disputing at the World Trade Organization*. Redwood: Stanford University Press.
- [4] Daniels, Joseph P. & David D. Van Hoose (2013). *International Monetary and Financial Economics*. New York: Pearson Education.
- [5] Feenstra, Robert C. (2004). *Advanced International Trade: Theory and Evidence*. New Jersey: Princeton University Press.
- [6] Gandolfo, Giancarlo (2014). *International Trade Theory and Policy*. New York: Springer Publishing.
- [7] Goldin, Ian & Kenneth Reinert (2012). *Globalization for Development: Meeting New Challenges*. Oxford: Oxford University Press.
- [8] Herrmann, Ulrike (2014). *Project of the Powerful: TTIP Transatlantic Trade and Investment Partnership*. Brussels: Rosa Luxemburg Foundation.
- [9] Heywood, Andrew (2011). *Global Politics*. Basingstoke: Palgrave Macmillan.
- [10] Hix, Simon (2011). *The Political System of the European Union*. Basingstoke: Palgrave Macmillan.
- [11] Hufbauer, Gary C. & Kati Suominen (2010). *Globalization at Risk: Challenges to Finance and Trade*. New Haven: Yale University Press.
- [12] Kotzias, Nikos & Petros Liacouras (2006). *EU-US Relations: Repairing the Transatlantic Rift*. Basingstoke: Palgrave Macmillan.
- [13] Mansfield, Edward D. & Helen V. Milner (2012). *Votes, Vetoes, and the Political Economy of International Trade Agreements*. New Jersey: Princeton University Press.
- [14] McCormick, John & Jonathan Olsen (2013). *The European Union: Politics and Policies*. Boulder: Westview Press.
- [15] Nello, Susan (2011). *The European Union: Economics, Policies and History*. Maidenhead: McGraw-Hill Education.
- [16] Oatley, Thomas (2012). *International Political Economy*. New York: Pearson Education.
- [17] Pinto, Nuno G. O. (2003), "Instrumentos Governamentais Nacionais e Comunitários de Apoio ao Comércio Internacional". In José António Porfírio (ed.), *Gestão Financeira Internacional* (pp. 151-176). Lisboa: Editora Rei dos Livros.
- [18] Rodrik, Dani (2011). *The Globalization Paradox: Democracy and the Future of the World Economy*. New York: W. W. Norton & Company.