EU–US Trade Policies: Competition or Cooperation?

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22 July 2015
On 22 July 2015, Chatham House’s US Project hosted a breakfast discussion with Pascal Lamy, president emeritus at the Jacques Delors Institute and former director-general of the World Trade Organisation (WTO) (2005–13) and European trade commissioner (1999–2004), on ‘EU–US Trade Policies: Competition or Cooperation?’ This event was part of an ongoing project, sponsored by Bank of America Merrill Lynch, which brings together senior representatives from multiple sectors to discuss US and European perspectives on common economic challenges.

The principal points of the discussion included the following:

- Currently, US and EU trade policies are converging, resulting in more cooperation between the two economies than in previous decades. Bilateral trade disputes have declined: 20 years ago, two-thirds of WTO disputes were between the US and the EU, whereas today the figure is less than 30 per cent. This is significant given the rising volume of trade between the two. However, even with a convergence on some trade policies, differences remain:

- The US and the EU have different geopolitical visions, including on China, which is reflected in their trade policies. For instance, the American-led Trans-Pacific Partnership (TPP) seeks to build relations with Pacific Rim countries such as Japan and Malaysia, but does not include China. Meanwhile, the EU does not share many of the US’s concerns over China’s geopolitical stance.

- The US and the EU have different policies in terms of intellectual property (IP) and support for farmers, reflecting their different priorities. The US has a more stringent standard for IP protection, whereas the EU takes more of a middle ground in areas such as medicines. Further, although both entities support farmers, the US provides proportionally less money (dollars per acre, in the US case) in support and still exports a high proportion of commodities. In contrast, the European Common Agricultural Policy in recent years has moved away from a production-oriented approach towards a more market-oriented one.

- There are also differences in the authorizing environment – the US Congress vs the European Council and Parliament. That difference is party structural and partly political – European legislators have had less difficulty in agreeing trade policy than their American counterparts in recent years.

- Although there has been a push towards harmonizing US and EU trade policies, this had not been become concrete (in the form of a bilateral binding instrument) until now. TTIP reflects the trend towards trade agreements that focus less on protectionist policies and more on precautionary regulatory policies.

- The TPP and TTIP are fundamentally different. While the TPP is 80 per cent ‘protection’ and 20 per cent ‘precaution’, TTIP is the opposite. Many polices implemented in TTIP would align regulations between trade partners (precaution). Only a few policies deal with protectionist principles for the trading markets. TTIP is a manifestation of the new world of open trade, while the TPP represents the last of the old trade policies based on reducing protection.
• TTIP had a difficult start because the negotiations were held outside the public eye. That style of negotiation worked for previous trade agreements, but to be successful in the current political environment TTIP needs more public support. The public, especially in Germany, is protesting against TTIP out of fear that it will lower consumer protection standards. Both David Cameron, the UK prime minister, and Angela Merkel, the German chancellor, were surprised by the backlash against TTIP. They did not take into account some of the functional issues involved in adopting a policy that would align regulatory regimes across the Atlantic. Instead, they simply focused on the traditional narrative based on benefits of increasing transatlantic trade. TTIP needs to be sold as ‘precaution plus’ rather than ‘protection minus’.

• Throughout his presidency, Barack Obama has expended little political capital on trade agreements. Given his late start in advancing his trade agenda and his choice to prioritize the TPP, TTIP is unlikely to happen before the end of his term. The emergence of China and India has pushed Europe and the US towards trade convergence. Although there will never be a completely standardized transatlantic market, if the US and EU adopt and advocate precautionary principles, the rest of the world will follow.

• Since TTIP is mostly about precaution, this is only good news for the rest of the world. If the US and EU create aligned regulations, this will increase others’ (including China’s) participation and integration in the global world order. For example, if food safety policies merge, global producers will save money by following the same regulations with multiple trade partners. Consumers will benefit as a result. In the same vein, if there is convergence on safety standards for cars, that is good news for Japan and South Korea, major car manufacturers. Standardizing regulations will save resources across a range of different industries.

• Although there will never be a completely standardized transatlantic market, the playing field can be levelled. TTIP marks the first stage of an era of new trading policies, with protections and some joint regulation on ‘low-hanging fruit’ such as medicines, chemicals, banking and insurance. The second stage in the development of new global trade rules would engage China and the emerging world. It is important to recognize that trade policy is trending towards increased openness because production is globalizing. Despite the global recession, trade is more open than it was 10 years ago. However, the political sensitivity of trade issues is much higher than before. For lawmakers to implement TTIP and similar agreements, there must be a very high standard of legitimization and cooperation between actors and their publics.