

October 16, 2014

Proposed Transatlantic Trade and Investment Partnership (T-TIP)

Overview

What is it? The Transatlantic Trade and Investment Partnership (T-TIP) is a proposed “comprehensive and high-standard” free trade agreement (FTA) between the United States and European Union (EU). Both sides seek to liberalize transatlantic trade and investment and set globally relevant rules and disciplines that could boost economic growth, support multilateral trade liberalization through the World Trade Organization (WTO), and address third-country trade policy challenges.

What is the current status? On March 20, 2013, the Obama Administration notified Congress of its intent to negotiate T-TIP. Negotiations began in July 2013, and seven rounds of negotiations have been held to date, with the most recent one completed in October 2014. Both sides aim to conclude the negotiations in two years, but the likelihood is uncertain given the complexity of the issues. Both sides have exchanged initial tariff offers, and discussions on regulations, standards, and rules are ongoing. Textual discussions on investment are suspended pending the outcome of the EU’s public consultation on investor-state dispute settlement.

“... [an] opportunity to not only expand trade and investment across the Atlantic, but also contribute to the development of global rules that can strengthen the multilateral trading system.”

U.S. and EU leaders on T-TIP, February 2013

How would it differ from other U.S. FTAs? T-TIP involves the world’s two largest advanced economies. Negotiators seek new or expanded commitments in areas such as regulatory compatibility, state-owned enterprises (SOEs), and localization barriers to trade in the digital environment. In addition, negotiators aim to use T-TIP to develop globally relevant trade disciplines.

What are supporting views? Supporters see an opportunity to boost transatlantic economic growth and jobs by addressing costly trade barriers; strengthen the U.S.-EU bilateral relationship; and support broader and deeper trade liberalization, including through potential common approaches for the development of rules in the WTO or with third-country markets.

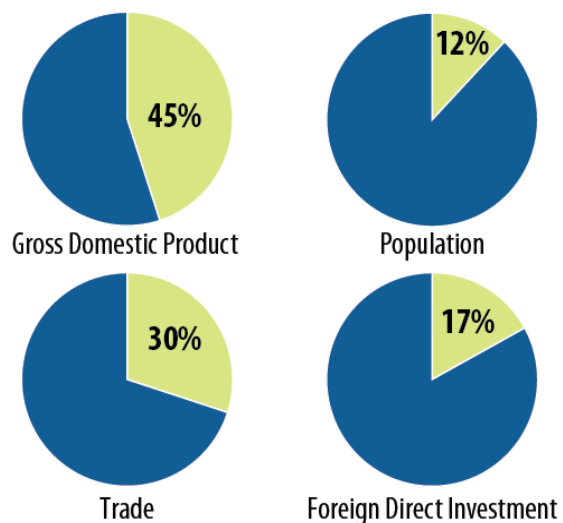
What are opposing views? Opponents are concerned about adverse effects on import sensitive sectors; the impact on U.S.-EU relations should negotiations stall; a focus on regional and bilateral FTAs detracting from multilateral trade liberalization; and potential infringement on U.S. and EU sovereignty, including the ability to regulate for health, labor, and environmental interests.

What is the role of Congress? Congress establishes U.S. trade negotiating objectives and would consider legislation to implement a final T-TIP agreement. Possible congressional consideration of renewal of Trade Promotion Authority (TPA), which expired in 2007, could affect the T-TIP negotiations. As part of oversight, Congress could examine how T-TIP would compare with other FTAs, such as the Trans-Pacific Partnership (TPP) and EU-Canada Comprehensive Economic and Trade Agreement (CETA), and whether T-TIP should include other countries, such as Canada and Mexico.

Trade and Economic Context

The United States and EU share a mutually beneficial and globally significant economic relationship (**Figure 1**). While they are each other’s largest overall trade and foreign direct investment (FDI) partners, a range of trade and investment barriers constrain the economic relationship. Concerns about slow economic growth and increased competition from emerging markets have renewed interest in addressing remaining bilateral trade and investment barriers through T-TIP.

Figure 1. U.S.-EU Share of Global Economy



Source: World Bank; World Trade Organization; and United Nations Committee on Trade and Development.

Key Negotiating Issues

Market Access. The United States and EU aim to eliminate or reduce trade and investment barriers on goods, services, and agriculture. Average U.S. and EU tariffs are already low, but given the magnitude of the transatlantic economic relationship, further tariff liberalization could yield significant gains.

Regulations and Standards. A major component of T-TIP is achieving greater cooperation, convergence, and transparency in regulations and standards-setting processes to reduce bilateral nontariff barriers to trade. Key sectors of interest include automobiles, chemicals, cosmetics, engineering, information and communications technology, medical devices, pesticides, pharmaceuticals, and textiles.

Transatlantic Cooperation

Possible U.S.-EU regulatory and standard-setting approaches:

Cooperative Frameworks, such as through the Transatlantic Economic Council (TEC) and potential T-TIP mechanisms, provide an opportunity to discuss technical differences, as well as processes for greater transparency, accountability, and stakeholder participation across sectors.

Mutual Recognition Agreements (MRAs) are agreements by regulators to accept products and services from each other's jurisdiction under specified conditions. For example, the United States and EU recognize each other's safety inspections for civilian aircraft under a 2011 bilateral MRA.

Harmonization of the same standards or rules across jurisdictions is being discussed in the T-TIP context, particularly as a possibility for the development of new regulations and standards for future technologies.

Global Standards Leadership could be possible if the T-TIP results in meaningful regulatory outcomes.

Rules. The United States and EU seek to establish rules governing international trade, such as for regulation, SOEs, intellectual property rights (IPR), investment, trade facilitation, and localization barriers to trade. Some rules could exceed existing U.S. FTAs or WTO commitments.

Specific Issue Areas

Agriculture. Agriculture is an important part of U.S. trade. T-TIP negotiations seek to address tariff reduction and elimination; market access for genetically modified organism (GMO) products; sanitary and phytosanitary standards (SPS); and treatment of regional agricultural products as geographical indications (GIs).

Customs and Trade Facilitation. The efficient flow of legally traded goods across borders supports access to foreign markets and global supply chains. T-TIP negotiations aim to address burdensome customs procedures to support U.S.-EU trade, while balancing security concerns.

Digital Trade. The Internet is an important delivery platform for trade. Open e-commerce trade, data flows, and privacy could be a major part of T-TIP negotiations, attracting greater interest due to debate about U.S. government surveillance activity and new EU directives to reform its data and privacy laws.

Dispute Settlement. Provisions on dispute settlement establish the mechanism for enforcing FTA commitments. T-TIP negotiations may examine what disciplines would be covered under a dispute settlement mechanism and approaches for dispute resolution.

Energy and Raw Materials. Discussions may focus on removing restrictions on trade and investment in energy and raw materials, as well as regulatory frameworks. Exports of liquefied natural gas (LNG) may be of particular interest.

Government Procurement. Government procurement disciplines aim to ensure transparent, nondiscriminatory treatment toward domestic and foreign firms when government actors make purchasing decisions. T-TIP negotiations could involve discussions on greater market access and enhanced rules for procurement markets, including at the sub-central government level.

IPR. T-TIP negotiations are expected to include the protection and enforcement of IPR, which are legal rights in various form (e.g., copyrights, trademarks, and patents) to protect innovation and promote creative output. Treatment of GIs may be controversial, while cooperation on trade secrets could lead to globally relevant rules on cyber theft.

Investment. U.S.-EU investment flows outsize the already sizeable U.S.-EU trade flows. Possible T-TIP issues include greater market access for certain sectors and investor-state dispute settlement.

Labor and Environment. Labor and environmental provisions attempt to address concerns over the protection of worker rights and the environment. The United States and EU, which maintain high levels of domestic protection in these areas, may debate the scope and enforceability of such obligations in T-TIP.

Localization. "Forced" localization measures, such as local content requirements to process data in-country, are designed to support domestic firms at the expense of foreign counterparts. T-TIP could address localization barriers bilaterally and with third countries.

Rules of Origin. Rules of origin will determine which U.S. and EU goods would benefit from T-TIP.

Services. Services are important to the U.S.-EU trade relationship. U.S. FTAs typically cover trade in services through market access provisions and rules. There is debate about whether financial services regulation and "cultural exceptions" for the audiovisual services sector will be discussed. Other possible issues include the movement of service providers across borders.

SOEs. State-owned enterprises, in which the government has significant control or influence, often receive subsidies, preferential financing, and/or other special privileges, and can place foreign firms at a competitive disadvantage. T-TIP aims to craft globally relevant SOE disciplines.

For additional information, see CRS Report R43387, *Transatlantic Trade and Investment Partnership (TTIP) Negotiations*, by Shayerah Ilias Akhtar and Vivian C. Jones.

Shayerah Ilias Akhtar, siliasakhtar@crs.loc.gov, 7-9253
Vivian C. Jones, vcjones@crs.loc.gov, 7-7823

IF00005