THINKING IT OVER: TTIP

TRADE. INVESTMENT. PARTNERSHIP.

Even at the negotiation stage, the Transatlantic Trade and Investment Partnership (TTIP) was triggering emotional debates. But an informed discussion requires good arguments based on facts and background.

As an integrated trading state, the Federal Republic of Germany has benefited since its formation from the country's progressive integration into the global economy. After all, the Economic Miracle and the „Prosperity for All" program were made possible by open markets. Germany especially, as an exporting economy, has an interest in trade liberalization and establishing clear rules for world trade. By creating a common economic area, the liberal democracies of the EU and the US can shape a global economic order.

TRADE: Free trade agreements release potential, creating impetus for growth and prosperity. The US has particular importance for the German economy in this regard: the United States is Germany's largest trading partner outside of the EU. Growth in trade between the EU and the US as a result of the TTIP is expected to have a positive impact on the German job market.

INVESTMENT: Direct foreign investment is a key prerequisite for economic success in the face of global competition. About 2.6 million German jobs depend on direct foreign investment, and the US is Germany's largest non-European investor. Protection of foreign investments and reliable procedures for resolving disputes create an incentive for further investments. But German and European investors also need protection in the US.

PARTNERSHIP: In view of the demographic trends and relatively weak economic growth in Europe, the EU may lose significance in the future in the context of the global economy. Europe needs strong partners. A partnership with the US will solidify our position in the global market.

The Transatlantic Trade and Investment Partnership (TTIP) offers numerous opportunities. Let us talk about it!

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The success of the social market economy in Germany depends on progressive integration in the global economy.

The intensification of global economic and trade relationships opens up new markets, enables a higher degree of product specialization and size advantages. New production opportunities for established companies can be exploited, and entrepreneurs can realize new business ideas. At the same time, consumers will have a larger selection to choose from.

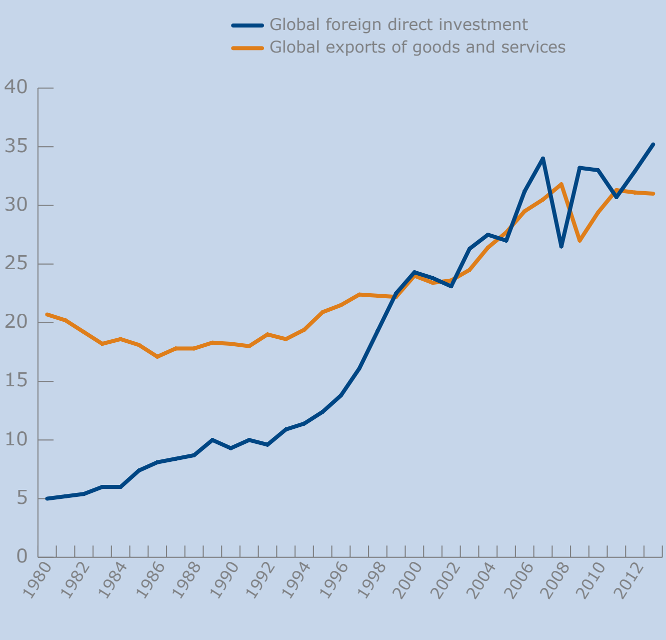
The maxim of open markets is firmly established within the social market economy: after all, this is what made the Economic Miracle and "Prosperity for All" possible.

Free access to markets is a basic necessity if we are to prevent the formation of monopolies. Trade promotes competition, which in turn stimulates long-term growth and employment. Access to foreign markets is a key criterion for survival in the global race for market access, competitiveness and direct investment. It is about securing our future prosperity.

A fair, rule-based system for global investment and trade is especially important for Germany. TTIP will allow the European Union to play an active part in establishing common rules.

Globalization indicators

Share of global gross domestic product (GDP)



Sources: IMF, UNCTAD, Cologne Institute for Economic Research

Trade and foreign investment are the key drivers of globalization as well as the factors driving growth and prosperity. They require a reliable system of rules and open markets.

Free trade agreements promote the exchange of goods and services, creating growth and jobs.

The goal of free trade agreements today is to eliminate as many barriers to trade as possible without jeopardizing established standards. Trade barriers limit the free international movement of goods and services. In general, a distinction is made between tariff and non-tariff trade barriers.

Tariff trade barriers consist primarily of customs duties and are considered the classic protectionist instrument. Most industrial goods traded between the EU and the US carry low customs rates of about three percent. Due to the high trade volume, experts expect substantial savings as customs duties continue to be cut.

However, the focus of transatlantic trade policy is on non-tariff trade barriers. These are regulations which directly or indirectly restrict foreign trade, and which are not based on customs duties. They include trade quotas, trading bans and voluntary restrictions. A large number of different rules may represent tangible administrative trade barriers. In many cases, products need to be approved separately for different markets. There may be different notification and packaging requirements. The impact of non-tariff trade barriers in EU-US trade is equivalent, on average, to a customs duty of about 20 percent.

The European Union and the US already have very close economic ties. TTIP can unleash previously untapped growth potential primarily by taking down non-tariff trade barriers.

Non-tariff trade barriers;
example: the automotive industry

Trade barriers based on different product standards

Example	EU	USA
Rear indicator	Yellow	Red or yellow
Side mirror	Retractable	Not necessarily retractable

Different product standards mean that companies will have to make adaptations to their production line if they want to export products to the other region; for example, US carmakers have to design side mirrors differently for the EU market.

Trade barriers based on different testing methods

Example	EU	USA
Carbon emissions rules	Based on weight of the vehicle	Based on size of the vehicle
Registration	Type approval method: registration by the state	Self-certification method: certification by the manufacturer

Because of the differences, automotive exporters have to go through testing and registration processes twice, at considerable cost.

Source: own compilation

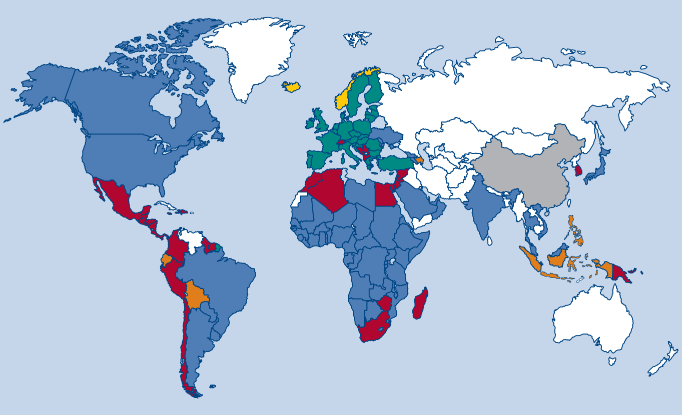
More and more free trade agreements are being concluded worldwide. With a common economic area, the EU and the US will be able to shape the global economic order.

There are almost 400 free trade agreements in the world today. The EU alone has such agreements with about 50 partner countries, and even countries like China, India and Russia are trying to secure stronger trade relations with other countries. Free trade agreements secure new markets. They facilitate planning for international companies, while affording consumers a greater selection. Free trade agreements also create better foundations for direct investment. The European Commission is presently conducting negotiations for free trade agreements with the US, Japan, India, Malaysia and other partners, and the EU is negotiating an investment agreement with China.

The Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US would be a significant step, in that it would create the largest economic area in the world. The EU and the US would be able to establish common rules and principles, and the agreements reached in an economic zone of this size would set the tone for future free trade agreements as well.

The ability of European companies to succeed depends on taking advantage of global production networks, and the task of EU trade policy is to enable this access. Other regions are also competing for new markets and trading advantages. Alongside the discussions concerning the TTIP, the US is also conducting negotiations for a Trans-Pacific Partnership (TPP), which are already very far advanced. Meanwhile, China is trying to establish an Asia-Pacific free trade zone. TTIP would give Europe the opportunity to help shape the future global trade system.

Bilateral trade and investment agreements of the European Union (EU)



- Existing agreement
- Agreement under negotiation
- Countries with which agreements are being considered
- Investment agreement under negotiation
- EU + Customs Union
- European Economic Area

Sources: EU Commission, Cologne Institute for Economic Research

The EU (as well as the US and other countries) has already concluded a very large number of free trade agreements with other countries. One reason is that the multi-lateral route, via the WTO, has bogged down. TTIP represents the culmination of the EU's bilateral free trade strategy.

Germany benefits from extensive trade liberalization.

Products bearing the "Made in Germany" quality seal often consist of parts which are manufactured in many places all over the world. After all, it is becoming increasingly possible to break up value chains, with different elements of the production process located in different countries.

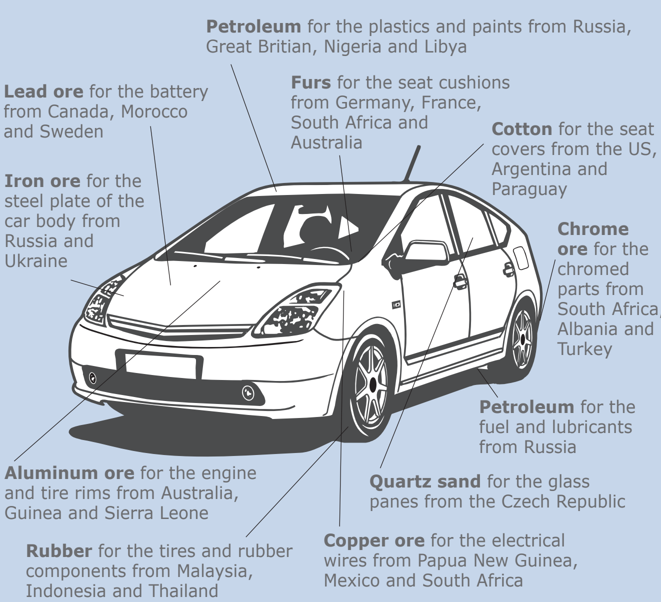
Trade is increasingly taking place at the level of production, and, as a result, companies are increasingly operating within international production structures. In many cases, input products are shipped back and forth between various global locations as part of the manufacturing process. Customs and non-tariff trade barriers disrupt this process: they diminish opportunities to exploit trade potential and reduce costs, affecting growth and employment. European companies face intense global competition: they need flexibility to secure jobs and working standards.

Taking advantage of global value chains increases competitiveness. A better global division of labor and a higher degree of specialization allow companies to efficiently exploit their advantages, in both absolute and comparative terms.

The concept of the modern free trade agreement goes beyond liberalizing trade in finished products. Rather, the liberalization of trade should be as broad and as extensive as possible. In addition to tariffs, rules for the elimination of non-tariff trade barriers should also be addressed. The German economy, which relies on trade to a significant extent, would benefit enormously.

The international production connection

Origin of the key components of an automobile



Sources: Klett, Cologne Institute for Economic Research

Recently, globalization has increasingly been taking place at the level of production. In view of international value chains and production networks, products today are made of parts which are manufactured all over the world. A forward-looking trade policy must respond to this reality.

The US has particular significance for Germany, the "world champion of exports"

German products ranging from cars to hearing aids are very popular all over the world. Numerous highly-specialized mid-sized companies are the global market leaders in their respective segments, and these "hidden champions" contribute decisively to the strength of the German economy.

The success of Germany's export sector is attributable above all to the high quality, reliable supply and extensive service offerings of German companies. This in turn enables high wages and good working conditions.

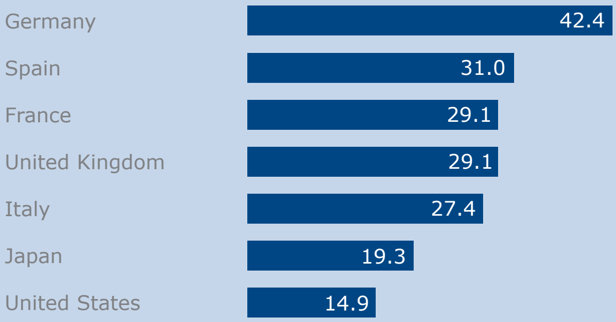
No other major industrialized country is as integrated in the global economy through trade as is Germany, and the high share of net exports in Germany's GDP is a key aspect of our economic success. Germany's self-image as an integrated trade economy shapes the political identity of the Federal Republic of Germany. Trading partners outside of the EU are becoming increasingly important for German exporters, and the US is first among them. Around eight percent of German exports are manufactured for the US market.

Stronger trade between the EU and the US through the TTIP can be expected to have a positive impact on the German job market, where almost one in four jobs depends on exports, directly or indirectly. In the industrial sector, half the jobs fall into this category.

More than other countries, Germany depends on open markets and reliable international trade rules. In view of demographic trends and the relatively weak economic growth in Europe, the EU alone might lose significance in the future in the context of the global economy. A partnership with the US would solidify our position in the world market.

Trade openness of major industrialized countries

Average exports and imports as a percentage of GDP (2014)



Sources: EU Commission, AMECO database, Cologne Institute for Economic Research

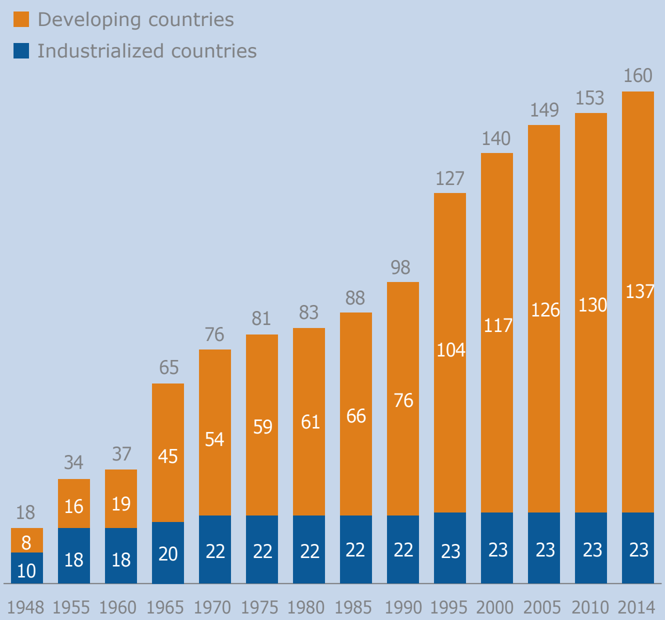
Comapred to other major industrialized countries, Germany is very open to trade and has a close relationship with the US. It relies to a particular extent on reliable international trade rules and needs strong partners in order to shape those rules.

TTIP has the potential to revive global free trade negotiations.

The role of the World Trade Organization (WTO) is to coordinate the trade policy of its member states and eliminate trade barriers. The WTO serves as a means of resolving disputes among the member states in trade questions. The 160 member states represent more than 90 percent of global trade volume. All WTO resolutions must be adopted unanimously. A comprehensive multilateral trade agreement under the auspices of the WTO is often seen as the ideal method for establishing global trade rules. An important argument in favor of this method is that it takes into account the interests of threshold and developing economies.

In Doha in 2001, the WTO member states adopted an agenda for shaping the world trade system. However, the Doha Round has made little progress since then, and the conclusion of an agreement is still very far away. As a result, bilateral and regional agreements are becoming more significant. Successful TTIP negotiations between the EU and the US could pump new life into the Doha Round. The transatlantic market must be open to threshold and developing countries.

Number of WTO member states



WTO = World Trade Organization

Sources: WTO, Cologne Institute for Economic Research

The steady growth in the number of WTO member states demonstrates that the existing multilateral trade system is attractive for developing countries as well. However, further trade liberalization within the framework of the Doha Round has made little progress due to internal conflicts and obstruction in the WTO.

Investment protection creates incentives for foreign investment, which in turn generates growth and jobs.

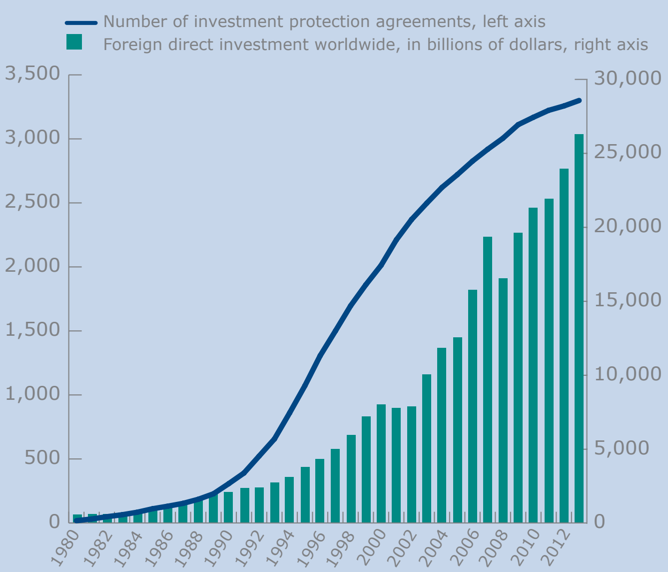
There are more than 3,000 investment protection agreements all over the world today, and Germany is one of the pioneers in this area. The first bilateral investment protection agreement was concluded between Germany and Pakistan in the year 1959. The agreements which followed were at first concluded primarily between industrialized European countries and southern developing countries.

International law of aliens, which is only slightly developed and not yet standardized, offers inadequate protection to foreign investors. It provides a right to legal personality, a due process of law and protection against expropriation. However, it does not offer foreign investors any right of action on the level of international law. Accordingly, the response to a violation of investors' rights rests entirely in the hands of the investor's home country within the framework of diplomatic protection. If the home country chooses not to exercise this protection, for example out of diplomatic concerns, the investors would have no way of enforcing their rights.

Investment protection agreements close this gap. They protect foreign investors from expropriation without compensation, from discrimination based on nationality, from clearly arbitrary acts and from the exercise of compulsion. They do not allow companies to file arbitrary lawsuits against the state for lost profit.

This legal certainty creates incentives for foreign investors to invest in the partner country, which in turn creates jobs and generates growth in the country which is the recipient of the investments.

Investment protection agreements and direct investments worldwide



Sources: UNCTAD, Cologne Institute for Economic Research

As foreign investment increased, the number of investment protection agreements has gone up significantly since the late 1980s. These agreements serve above all to protect investors from possible discrimination and the arbitrary exercise of state power abroad.

Foreign direct investment is an important prerequisite for economic success in global competition.

Investment protection agreements are designed to promote foreign investment. Foreign direct investment refers to assets invested by foreign nationals or foreign legal entities, and a good investment climate creates incentives for such investment.

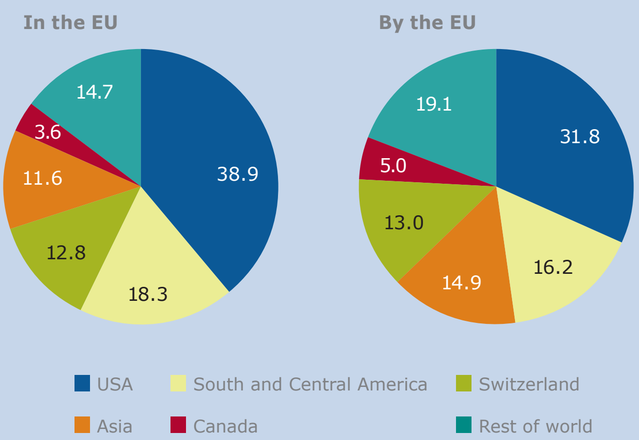
Foreign investments create new business locations within the recipient country, impacting wages, the purchase of machinery, equipment and commodities, and the utilization of the service sector. This in turn benefits domestic companies and suppliers. In this way, foreign direct investment serves to expedite economic growth, creating jobs and importing new technologies and know-how. It also helps to improve infrastructure. According to estimates by the Federation of German Industries (BDI), 2.6 million jobs in Germany depend on foreign direct investment.

The EU and the US have the strongest ties in the world in terms of direct investment. Almost 40 percent of direct foreign investment in the European Union comes from the United States, and almost one third of European direct investment goes to the US. In Germany as well, about 40 percent of all investment from non-EU countries comes from North America. If the investments made by Germany in non-EU countries, 44 percent goes to the US.

Because of these strong economic ties, the US is of great significance for European countries. To further expand economic ties, it will be necessary to strengthen the investment climate. To this end, the European Union is striving to eliminate trade barriers while at the same time affording consistent legal protection for investments with TTIP.

Direct investment by and in the EU by country or region of origin

2012 data, in percent



Sources: Eurostat, Cologne Institute for Economic Research

Investments by foreign businesses are a key engine of globalization. For the EU (and Germany), the US is the most important target country and country of origin for direct investments. For this reason, an investment agreement with the US would make sense.

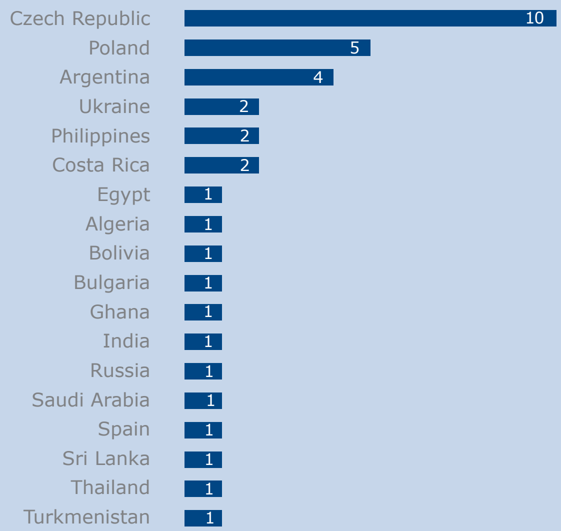
An arbitration tribunal has no power to override government regulations or enact laws.

There have been arbitration tribunals for inter-state actions long before the first investment protection agreements. Investor-state dispute settlement procedures were first included in an international agreement between Indonesia and the Netherlands in 1968. In this way, investors who believe that their rights have been violated can request arbitration independently, upon which an arbitration tribunal is to render an objective and politically unbiased decision. This option, under which investors file direct claims against the host country, minimizes the strain to diplomatic relations.

An arbitration tribunal cannot overturn statutory rules. Arbitration tribunals do not operate outside the legal system. They have no impact on the laws of the host country or its population. For the investor seeking arbitration, the only matter at stake is securing financial compensation for the damages suffered as a result of unfair treatment by the host country.

Various arbitration rules have evolved. The oldest set of rules was established in 1965 in the Convention adopted by the International Center for Settlement of Investment Disputes (ICSID), under the aegis of the World Bank. Today. 55 percent of all arbitration cases are decided on this basis. The Convention creates the option of filing a direct claim against a state, regardless of the investor's home country, to be adjudicated before a neutral tribunal. These rules have gradually been incorporated into investment protection agreements as well.

Germany: claims under the investor-state dispute settlement (ISDS) system



Sources: UNCTAD, Cologne Institute for Economic Research

The argument that no ISDS procedure is needed in TTIP because the EU and the US both have well-developed legal systems is questionable. Claims filed by German investors under existing investment protection agreements indicate that legal protection for investors is needed, especially in Central and Eastern Europe. In the US as well, there are deficiencies when it comes to affording protection for foreign nationals.

Germany and the EU need a reliable procedure for resolving disputes between investors and states.

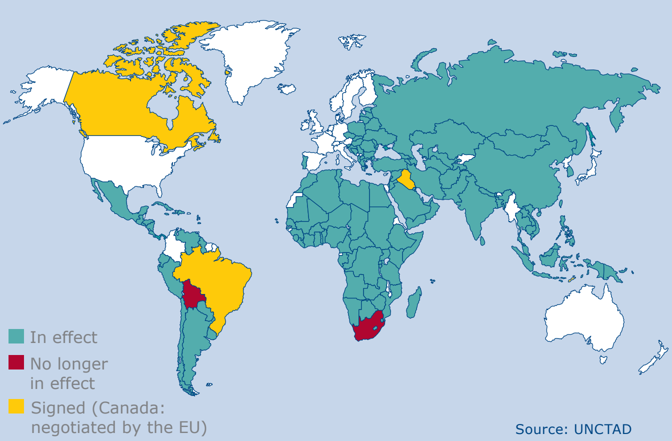
Germany has the highest amount of investment protection agreements in the world, with about 130 bilateral agreements. German investment protection agreements and the standards they have established have the character of models and serve as examples for many other countries. Aside from the German government's guarantees, investment protection agreements are the most important means of protecting German investments in foreign countries. The member states of the EU have concluded 1,426 investment protection agreements so far.

The number of investment protection agreements worldwide has increased since the 1990s. Requests for arbitration have also become more frequent: until 2015, 608 requests for arbitration were filed and 356 arbitration procedures were concluded.

Arbitration tribunals are not simply an extension of the private sector: EU states have won 50 percent of their cases. In 37 percent of all arbitration cases, the state emerged victorious. Only about one fourth of cases were won by investors. The other complaints were settled out of court or dismissed as unfounded.

There have been about forty occasions when German companies have invoked the protection afforded by these agreements and filed claims based on the violation of rights arising from investment protection agreements. Small and mid-sized companies and partnerships have used this instrument most often. Germany itself has been the subject of claims three times, twice by the Swedish state-owned company Vattenfall. The first Vattenfall procedure ended in 2010 with an out-of-court settlement. The other cases have not yet been decided. For Germany as a nation with a heavy reliance on trade, a transparent and forward-looking procedure for the resolution of disputes (investor-state dispute settlement, ISDS) in TTIP and CETA is very important. Such a procedure could attract new foreign investment. But what it also at stake is the protection of German and European investments in the US and Canada.

Germany: investment protection agreements



Source: UNCTAD

Germany has been a pioneer in investment protection agreements and has a broad network of bilateral agreements. In addition, German investors have filed about 40 claims before international arbitration tribunals according to UNCTAD. An improved ISDS procedure through TTIP is therefore in Germany's interest.

Investment protection in agreements between the EU, the US and Canada is a significant issue for future treaties with China, India and Russia.

The negotiating mandate of the EU member states provides for the option of including investor-state dispute settlement (ISDS) procedures in TTIP, and the EU Commission has supported this option in the negotiations. Recently, however, there have been proposals in the EU Commission and the German Economics Ministry to dispense with ISDS procedures in TTIP, based on the argument that the EU and the US are states with rule of law, so that foreign investors are already afforded adequate protection before the national courts.

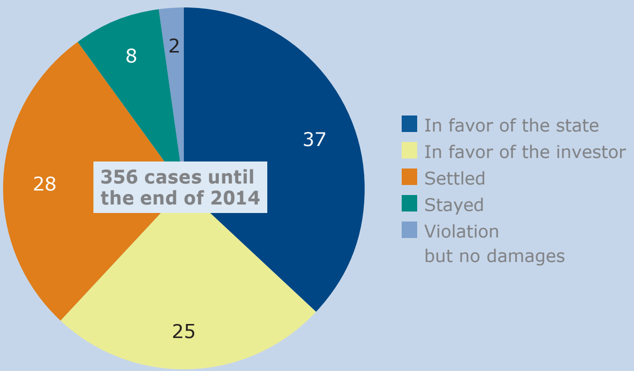
The EU is not a homogenous legal area but rather a union with 28 different legal systems, and the legal options and means of legal recourse available to investors here vary depending on the country. The fact that a uniform level of legal protection among the member states does not exist has become evident from a report by the EU Commission in the year 2014. In this report, progress in the Bulgarian legal system is described as "precarious," and the Commission stated that it was "concerned" about the judicial system in Romania. But even in European countries whose legal systems are considered unobjectionable, investors from outside the EU do not enjoy the same rights as European companies. For example, American investors in Germany do not have the standing to file actions before the Federal Constitutional Court.

In the US as well, foreign investors face difficulties before the courts. In jury trials, the status of the plaintiff as a foreign national has been made a subject of the proceedings multiple times, and even judges are elected directly by the people in many places in the US.

ISDS gives investors confidence in the neutrality of the procedure. The TTIP and CETA agreements serve an important function as a model for other agreements. If the EU dispenses with rules for investment protection in these agreements, it will be difficult to establish ISDS procedures in future agreements.

Outcome of procedures

As a percentage of concluded cases



Sources: UNCTAD, Cologne Institute for Economic Research

Investor-state dispute resolution procedures serve to enforce the legal rights arising from investment protection agreements and to minimize the strain on diplomatic relations between states. The outcome of previous cases makes it clear that investors have limited prospects for success.

It is in Germany's interest to take advantage of the TTIP negotiations and the broad public debate in order to update investment protection in key areas and adapt it to meet the requirements of industrialized countries.

The EU is trying to obtain an improved arbitration procedure as part of the TTIP negotiations. The US also sees a need for reform, and has revised some aspects of its agreements in 2004 and 2012. The focus of these efforts is on increasing transparency.

Today's ISDS agreements should be formulated based on the following aspects:

- The state's right to enact regulations in the public interest in a non-discriminatory and non-arbitrary manner should be set down expressly.
- The transparency of the ISDS arbitration process must be improved, and at the same time, protection must be afforded to investors' business secrets. The arbitration rules of the United Nations Commission on International Trade Law (UNCITRAL) could serve as a guide in this regard.
- In determining the composition of arbitration tribunals, it should be ensured that the arbitrators have broad legal expertise. It is very important to avoid conflicts of interest, which may arise if arbitrators act as attorneys in other cases. A binding code of conduct is advisable, such as in CETA.
- Unclear terms should be clearly and narrowly defined in order to minimize the interpretative discretion available to arbitration tribunals. Binding guidelines for interpretation are also advisable.
- An appellate body should be created to ensure that ISDS procedures are not the last resort, by opening up an avenue for appeal.
- Agreements should avoid the creation of incentives for abusive complaints. Expedited procedures for dismissing complaints may serve this purpose.

Within the framework of TTIP, Germany and the EU should take advantage of the opportunity to set new standards for arbitration procedures with a reform of ISDS procedures, cognizant of the fact that these new standards may serve as guidelines for future investor protection agreements and free trade agreements.

TTIP enables ISDS reform

- Guarantee the right of states to adopt regulations
- Increase transparency and include NGOs
- Introduce lists and code of conduct for arbitrators
- Clearly define terms and use guidelines for interpretation
- Ensure legal certainty for national bankruptcies and bank liquidations
- Create an appellate body and harmonize statutory rules
- Avoid incentives for abusive complaints

Source: own compilation, Cologne Institute for Economic Research

Some of the skepticism with regard to existing ISDS procedures is entirely justified. There are a whole series of points which merit criticism. This is all the more reason to take advantage of TTIP to create a significantly improved ISDS procedure and, ideally, to make it into the global standard.

A trade and investment partnership between the EU and the US offers advantages for both sides.

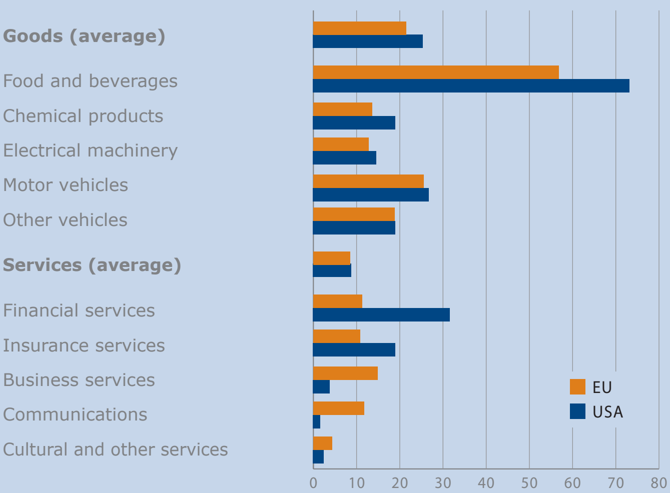
A trade and investment partnership between the EU and the US is a promising project. The EU and the US trade goods with a value of more than one billion Euros every day. Reducing customs duties would allow companies to save a significant amount, which in turn would secure competitive advantages and create flexibility for new business ideas.

But the concept of a stronger partnership includes product regulations as well as customs: TTIP should minimize added costs due to the existence of different standards and approval rules, which are often an insurmountable obstacle for small and mid-sized companies especially. Mutual recognition and harmonization of rules would provide enormous relief for companies on both sides of the Atlantic. This would also have a strong impact on the positioning of western standards in global competition.

To this end, different products and regulations should be examined in order to determine whether different testing and safety procedures have the same effect. If that is the case, mutual recognition would be possible without harming consumers. The existing level of protection is not jeopardized by the TTIP negotiations.

Through a stronger partnership, the EU and the US hope to open markets with are presently closed. New business opportunities increase gross domestic product and secure jobs. The TTIP negotiations offer European companies the opportunity to gain a larger share of the lucrative public procurement market in the US.

Trade cost equivalents of non-tariff trade barriers
As a percentage of the value of the goods



Sources: Ecorys (2009), Francois (2013)

TTIP will increase prosperity primarily by eliminating non-tariff trade barriers, which vary from sector to sector, thus reducing costs. Insofar as safety rules in the EU and the US are similar, different standards and regulations in the various sectors could be mutually recognized by both parties.

The US and the EU share many common values: rule of law, democracy and freedom are the foundations of a common system of values.

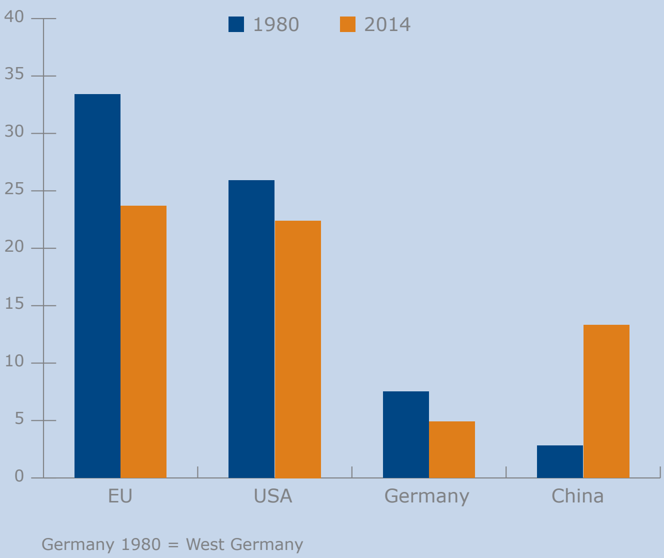
A stronger economic partnership between the EU and the US has the potential to transform the world order and the global economic system.

TTIP would create a single and powerful transatlantic market. Intensifying the economic relationship would unite about one half of the global economy and about one third of global trade volume. This will give the EU the opportunity to help set the tone in global economic policy in the long run.

On the other hand, the failure of TTIP would mean that the role of setting the standards for world trade in the 21st century would be left to other actors. Other regions in the world are growing at a much faster pace than Europe. Especially in view of China's economic ascent since 1980, it is clear that Europe's significance in the world is declining, as are its opportunities to shape global trade rules with its own values and standards.

Europe needs strong partners. As a liberal democracy, the US is a partner with whom we share basic values and fundamental principles. After the Second World War, Konrad Adenauer set the course for freedom and prosperity for the new Federal Republic of Germany with the double western alignment. Now, we have the opportunity to continue on this successful course and strengthen the transatlantic relationship.

Share of global GDP



Source: IMF, Cologne Institute for Economic Research

The impact of TTIP goes far beyond mere economic benefits. The transatlantic partnership also serves to secure the ability of the EU and the US to set the standards in a world where their economic significance should continue to decrease in relation to China and other emerging economies.

New measures to increase transparency and public participation are strengthening the TTIP negotiations.

The negotiations have attracted a great deal of public attention. The debate has focused on the legitimate desire for more public participation and more democratic transparency. To this end, the EU Commission has implemented several measures designed to make the conduct of the negotiations and the present status of the deliberations more transparent, including publication of the negotiating mandate. Information about the 24 individual chapters is also publicly available.

The information provided also includes proposed text which the Commission is introducing into the negotiations. The principle that "nothing is agreed until everything is agreed" is another instrument for ensuring that the interests of both negotiating partners are protected. For this reason, the agreement will not be submitted for parliamentary and public debate on a chapter-by-chapter basis: instead, the decision-makers will evaluate the text of the agreement as a whole.

Trade negotiations are complex, and this is especially the case in view of the comprehensive approach of TTIP. The EU and the US have a common objective in the negotiations, despite the fact that their interests may differ in individual questions. Once the negotiations are concluded, the European Parliament will be asked to ratify the agreement and if national authority is affected, the national parliaments will also be called upon to vote. Only then can the agreement take effect.

The idea of a transatlantic economic area is by no means new and has been under discussions for at least 20 years, to one extent or another. The present TTIP negotiations are giving substance to this idea and bringing it within reach.

Transparency, dialogue and democracy for TTIP

Website of the EU Commission and the German Ministry of Economics

- … with the negotiating mandate (published late)
- … with documents from the negotiations (online since autumn 2014)
- … with a great deal of information and FAQs

Opportunities for dialogue with the EU and the German Ministry of Economics

- … EU consultations and hearings
- … EU dialogue forum and stakeholder forum
- … the TTIP advisory council of the German Ministry of Economics

Democratic legitimacy

- … TTIP requires the approval of the Council and the European Parliament
- … TTIP requires the approval of the Federal Council in Germany

Source: own compilation, Cologne Institute for Economic Research

The TTIP negotiations are not being conducted in secret. A variety of channels exist through which the public and interested stakeholders can obtain information about key legal questions and the progress of the negotiations. Never before has a trade agreement been this transparent.

International trade is not a zero-sum game. Everyone can win.

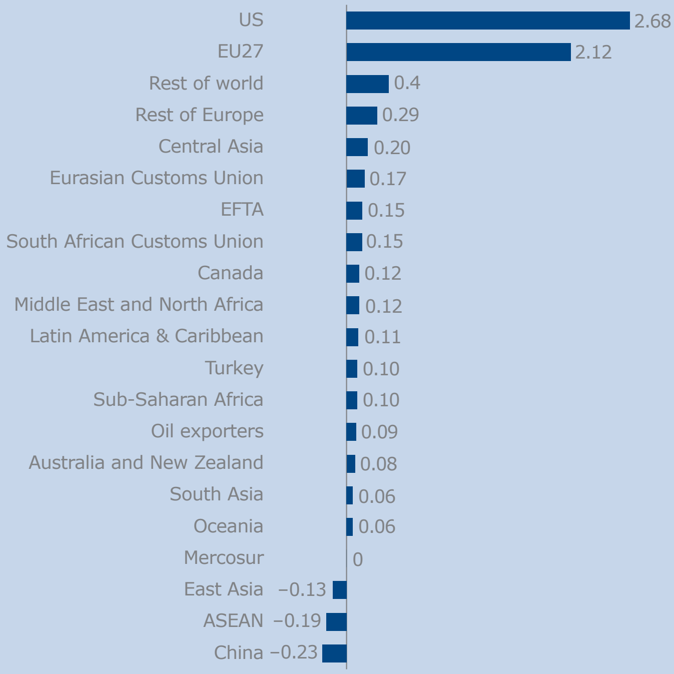
A significant agreement like TTIP would have an impact on third countries as well.

First of all, third countries will benefit if TTIP results in economic and income growth in Europe and the US, as this would create a higher demand for goods and services from other countries. Nevertheless, reducing the cost of trade between the contracting states could have the effect of diverting trade, so that goods which were previously imported from third countries would now be purchased from contracting states.

A transatlantic trade agreement should be formulated in such a way as to benefit third countries as well. After all, international trade is not a zero-sum game, and one actor's gain is not necessarily another actor's loss. Mutual recognition of technical standards and approval procedures would reduce costs for suppliers outside the EU and the US as well: in the future, these companies will, in theory, be able to supply both markets while having to comply with only one set of rules, which will improve their sales opportunities.

TTIP offers the opportunity to create fair and open trade rules. This would be in the interest of a multilateral world trade order as well.

Estimated impact of TTIP on real per capita income



Source: Aichele et al (2014)

Third countries can gain from TTIP because stronger growth would be generated, and above all because TTIP will be structured as an open partnership. As a result, possible negative effects could be offset by diverting trade.

Bilateral and regional agreements are becoming increasingly significant. This lends new impetus to multilateral negotiations.

Due to the rising trend of protectionism all over the world, potential for growth and job growth has gone unexploited. The G20 states alone have, on balance, implemented more than 1,200 new measures restricting trade since the global financial and economic crisis began in 2008.

Trade agreements serve to secure a mutual reduction in protectionism. A comprehensive multilateral trade agreement under the auspices of the WTO is considered to be ideal method of achieving that objective, since it would be the best way of taking into account the interests of threshold and developing countries. Consistent rules for world trade ensure transparency and help small and mid-size companies especially, which have difficulty complying with innumerable different regulations.

However, efforts within the WTO to secure a multilateral arrangement of world trade are largely at a standstill, so that bilateral and regional agreements are becoming more important. In addition to TTIP, various other mega-regional trade agreements are currently under discussion or have been already negotiated, especially in the Asia-Pacific region. Alongside TTIP, the US is working on a Trans-Pacific Partnership (TTP) and China, for its part, is trying to create an Asia-Pacific free trade zone under its leadership, which could encompass about one half of the world's population.

Past experience has shown that regional initiatives can provide the necessary impetus for multilateral negotiations. Examples include the formation of the EC Customs Union in the 1960s and, later on, the North American Free Trade Agreement (NAFTA) in the 1990s.

New protectionism since 2008

Number of new measures by G20 states restricting trade

Sources: WTO, Cologne Institute for Economic Research

The number of trade barriers has steadily increased since the financial crisis broke out in 2008. A global trend can be discerned in this regard. Such protectionist measures may protect the national economy in the short term, but they inhibit growth in the long term.

The Transatlantic Trade and Investment Partnership (TTIP) protects democracy and the rule of law.

Since the formation of the EU, exclusive jurisdiction for common trade policy has rested with institutions at the European level. In the EU treaty, the member states agreed to gradually eliminate international trade barriers. Within the context of this common trade policy, the member states have issued the EU Commission the mandate to negotiate a comprehensive trade and investment agreement with the US. In this mandate, the member states have defined the framework for a possible agreement.

Democratic legitimacy is ensured by the fact that, once the negotiations are finalized, the agreement cannot take effect in the EU until it is approved not only by the representatives of the various national governments in the European Council, but also by the elected members of the European Parliament and by the national parliaments as well, insofar as national authority is affected. In other words, the agreement has to be approved by German Parliament as well.

The numerous trade and investment agreements concluded by the EU demonstrate that the specifications of the negotiating mandate are observed and that there is no reason to fear an erosion of our democracy. The right of each state to enact internal regulations is not impaired, and there is no obligation to privatize basic public services. The existing agreements even include a general exemption for municipalities: regulations on that level are not affected. There are also extensive exemptions for cultural institutions. In particular, audiovisual media and cultural subsidies play no part in the negotiations.

The investment protection rules require non-discriminatory treatment without establishing special rights for investors beyond the scope of existing European and German law.

Policymaker promises with regard to TTIP

"Nothing we do through TTIP will in any way limit the ability of governments in Europe or the United States to regulate in the public interest or reduce the level of health, safety and environmental protection publics on both sides of the Atlantic have come to expect."
Michael Froman,
US Trade Representative

"TTIP is not and will not be a deregulation agenda."
Ignacio Garcia Bercero,
EU Chief Negotiator

"This is not about reducing standards, as is often said: on the contrary."
Angela Merkel,
Federal Chancellor

"I have fought my entire political career and as President to strengthen consumer protections. I have no intention of signing legislation that would weaken those protections."
Barack Obama,
President of the United States

Sources: Remarks at the German Federal Ministry for Economic Affairs and Energy of 5 May 2014; press release of the European Commission IP/13/1306 of 20 December 2013; press conference of President Obama of 26 March 2014; internet podcast of Angela Merkel of 10 May 2014.

Critics' allegations that TTIP lacks democratic legitimacy, threatens the authority of the state to enact regulations and that it will ultimately result in an erosion of EU standards are exaggerated. These allegations are contradicted by the negotiating mandate as well as by the assurances of policymakers at the highest levels.