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## **Transatlantic Trade and Investment Partnership (TTIP) Polish Perspective against the German Background**

### **Introduction**

Although negotiations between the European Union (EU) and the United States (US) on the Transatlantic Trade and Investment Partnership (TTIP) reached their eleventh round (November 2015) their final result is still not advanced enough. It is also not quite clear how long they are going to last. For the public opinion, especially in Europe, one of the most intriguing question is the fact that they are of closed-door character, which is an obvious phenomenon for specialists. At first everything will be negotiated on, without a public debate, and the treaty only will be published, according to the famous rule "nothing is agreed until everything is agreed". For most researchers, however, the essential point is the possible outcome, i.e. which of the three scenarios emerges as a result of negotiations - a customs union scenario, an NTB (non-tariff-barriers) elimination scenario or even a single market scenario. The aim of the following paper is to identify the possible effect of TTIP on the Polish economy where Germany, being the most important economic partner of Poland, serves as a background. The central thesis of the paper is that Poland will basically profit from TTIP. The advantages will encompass stimuli to trade, foreign direct investments, public procurements and lower prices for consumer goods. They will be mainly of indirect character, with Germany as the most important economic go-between, and their general scope will be rather limited, although positive.

Bearing in mind the above-mentioned circumstances, a critical analysis of Polish, EU (Brussels-based) and German reports and opinions will be conducted. In some cases it will be enriched by the author's informal talks with the Polish and German ministerial officials, representatives of numerous branches of both economies and finally lobbyists. The limited scope of the paper makes it impossible to encompass the whole subject matter of TTIP. Two of them have already been discussed widely - investor-state dispute settlement (ISDS) and consumer protection in the Polish literature<sup>1</sup>. These two areas - although important

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<sup>1</sup> Cf. for instance W. Gadomski, T. Kalinowski, M. Rot, E. Sadowska-Cieślak, Fakty i Mity o TTIP. Negocjacje umowy o wolnym handlu pomiędzy Stanami Zjednoczonymi a Unią Europejską.

from legal point of view - cannot be analyzed fundamentally from economic perspective at present and could bear rather a hypothetical than precise character because of the confidentiality of the current negotiations. This closed-door character makes it also practically impossible to be precise in estimating the aftermath of TTIP or sometimes even to formulate questions properly<sup>2</sup>.

In the EU the negotiation process started during the era of overcoming the global economic-financial crisis. This is why during the debate on the subject on both sides of the Atlantic the main focus was on the advantages directly connected with the opportunities of economic recovery, especially in Europe. At first, all doubts were either not recognized or have not been discussed intensively. The negotiation process has also taken place during the unexpected operations of Russia in Ukraine which evoked serious losses in bilateral trade and investment for many European countries engaged in Russia - consequences of which are experienced heavily both in Poland and in Germany. From the EU perspective there was also another negotiation process on free trade agreement with South Korea which has served as a good example of trade and investment stimuli and is perceived with less emotions than TTIP<sup>3</sup>.

The American perspective of TTIP is slightly different from the European one. Since the creation of the World Trade Organisation (WTO) the most important agreement liberalizing world trade has been Trans-**Pacific** Partnership (TPP) and not TTIP. The text of it has just been agreed (5th October 2015) after 5 years of negotiations but the implementing process is under way and may take many months. The United States government has considered the TPP as the "companion agreement to TTIP" and perhaps it may accelerate the TTIP process during Obama's second term of presidency. The consequence of this process for Europe is that for the Europeans it is basically the agreement and not one of the two, whereas for the Americans the Pacific one seems to be more important than the Atlantic one. TTIP is also not at the heart of public debate in the US. "The Trans-Pacific Partnership

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(Transatlantyckie Partnerstwo Handlowo-Inwestycyjne). Ministerstwo Spraw Zagranicznych, Warszawa 2015.

<sup>2</sup> This can be clearly seen when compared to Poland's EU-accession. The negotiation process and position is conducted or represented by EU/US-negotiators and not by groups of national (EU-side) negotiators. Also the activities of economic and social partners in Poland, as far as TTIP is concerned, can be viewed as passive.

<sup>3</sup> E. Heymann, German Industry benefits from free trade. Talking Point. Deutsche Bank Research, September 2015. According to this source - "nearly all of German's large industrial sectors have boosted their exports to South Korea since the free trade agreement was established". The best example is automotive sector - both car makers and suppliers which is absolutely important from the Polish perspective as a subcontractor. German automotive industry accounts for one third of total German exports to South Korea. The respective share of the new German passenger car market in South Korea has risen from 4.1% (2010) to 12% (first half of 2015).

(TPP) is currently the controversial trade agreement in the US because of the fear of losing jobs to Asian countries"<sup>4</sup>.

Fundamental changes on the European continent during the last 2-3 years - a new role of Russia, the attempts to integrate politically and economically in the East - Eurasian Economic Community among Russia, Belarus and Kazakhstan, and a very moderate economic recovery of the EU cause that TTIP today should be perceived much more as a geostrategic chance for the old continent and especially for countries with a shorter experience in the EU and NATO. Particularly for Poland and other Central European countries with their close trade and investment ties with Germany TTIP should be an attractive offer.

Apart from a series of technical barriers that will be removed after the TTIP process is achieved, one of the central advantage for Poland will be the fact of becoming a fragment of a new deal within the Western civilization united with closer trade and investment ties and in the context of the new standards for the world economy that will be "compulsory" for the non-TTIP countries, wanting to cooperate with the TTIP-countries in the years to come<sup>5</sup>. Another strategic TTIP-advantage for Poland is creating new economic chances in a more intensive division of labour between the EU and the US with the sudden loss of traditional markets in the East, especially in Russia and Ukraine<sup>6</sup>. These two facts have been mentioned very seldom during the public debate in Poland and consequently most Poles are not aware of them.

In comparison to other EU member states the TTIP debate in Poland is basically sluggish or even non-existent outside expert circles. Poland has faced two (presidential and parliamentary) election campaigns in 2015. The TTIP topic has been nearly non-existent in both of them. During the TTIP debate in Poland only entrepreneurs, farmers, some MPs, MEPs and few NGOs-representatives have taken part in the discussion. Polish entrepreneurs are not so well organized as their German colleagues and they lack the federations of industrial branches with their representative and lobbyist offices in Brussels.

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<sup>4</sup> From the Economist, quoted from L. Puccio, EU-US negotiations on TTIP. A survey of current issues. In-depth analysis, European Parliamentary Research Service June 2015.

<sup>5</sup> This opinion has widely been expressed by F. Merz, Chairman of the influential Atlantik-Brücke, which is an unofficial think tank dealing with the German-American relations. According to him this effect is much more important than removing technical barriers or trade and investment effects. The same position is held by (CDU-close) Konrad-Adenauer-Foundation - C. Todorova, Nachgedacht: TTIP. Handel. Investitionen. Partnerschaft, Berlin 2015.

<sup>6</sup> Polish exports rose by 6.2% in 2014 (nominated in US\$). During the same period Poland's exports to Russia fell by 12,9%.

Polish consumers import some durables from the US and are aware of their lower prices but consumer protection organisations in Poland do not emphasize this on a grand scale.

According to Eurobarometer (as of November 2014) somewhat unexpectedly in this context Poland belongs to the group of member countries with one of the highest support for TTIP at the level of 73%. Only in Lithuania (79%), Romania (75%) and the Netherlands (74%) the support level was a bit higher. On the other side, the public support for TTIP in Germany (and Austria) is the lowest and the political debate among most emotional in Europe. There has been an evolution of public support for TTIP in Germany both among political elites and the rank and file. The latest developments show high skepticism among trade unionist and left- and green-orientated activists. At a demonstration in Berlin early October 2015 some 250 thousand members of German trade unions took part in an anti-TTIP demonstration. Also the SPD-part of the ruling German coalition sometimes shows its ambiguity towards TTIP ("TTIP ist weder gut, noch böse" - TTIP is nothing either good or bad, paraphrasing Shakespeare's Hamlet). The public debate on TTIP in Germany at first emphasized all economic stimuli with the central topic of job creation in Germany as a consequence of export boost<sup>7</sup>. During the period of the CDU/FDP ruling coalition the support for TTIP was nearly euphoric and an anti-TTIP attitude was admittedly present but not loud. With the beginning of the CDU/SPD coalition the change was rapid but only among SPD. German politicians, taking into account the reaction of their electorate, partly from NGOs and consumer protection organisations have started to express a more restrained attitude towards TTIP. In addition, they also started to present more complex negotiations chapters as unequivocally negative, whereas evident benefits have been marginalised. Central topics of the debate in Germany is focused on food-safety regulations, ISDS and data protection<sup>8</sup>.

Paradoxically, the lesson for Poland from Germany consists in the possibility of avoiding a large-scale public debate on TTIP, if Poland wants to take advantage of its benefits. Obviously, the direct and indirect TTIP-effects on Poland are definitely smaller compared with Germany, mainly due to much lower export exposure of the Polish economy.

### **TTIP and Chances for Polish Exports and SMEs**

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<sup>7</sup> Especially with the report of G. Felbermayr et. al., Dimensionen und Auswirkungen eines Freihandelsabkommens zwischen der EU und den USA. Study commissioned by the Federal Ministry of Economics and Technology, ifo-Institut, Muenchen, January 2013.

<sup>8</sup> There is no evidence of telephone tapping of Polish political elites by the Americans (like the tapping of Chancellor Merkel in 2014).

Polish companies and employers' organisations are incomparably weaker organized in comparison to their German counterparts and thus have not been able to articulate and form own interests in TTIP questions. In this process most active German and French organisations have lobbied in the interests of their companies in Brussels. All federations of the biggest German sectors of the German industry (BDI) prepared, as far as before the negotiation process started, their own position papers with main expectations and priorities. The same applied to The Association of German Chambers of Commerce and Industry (Deutscher Industrie- und Handelskammertag, DIHK) which is the central organization for 80 Chambers of Commerce and Industry in Germany and to the Confederation of German Employers' Associations (BDA). These organisations (with the exception of BDA) have no comparable equivalents in Poland. One German Association may serve as a good example for comparison with the Polish conditions as far as SMEs are concerned - The Family Entrepreneurs of Germany. German family businesses expect the greatest positive effects of a free trade agreement for companies that previously did not have any business relations with the US due to existing tariff or non-tariff barriers. "TTIP will open up for such companies a new market that is mainly homogenous in terms to language, currency, legal framework, etc., when compared to many EU member states"<sup>9</sup>. 4 sectors of the German family companies are expected to benefit the most - automotive, metal products, processed foods and chemical substances<sup>10</sup>. The overall macroeconomic effects of TTIP for the German economy has been estimated by the Munich-based ifo-Institut. The annual growth rate of the GDP in Germany should be 0,3% point above the level presumed without trade liberalization. A comprehensive reduction of non-tariff barriers could generate a total of up to 110,000 new jobs in Germany<sup>11</sup>. The US economy is, of course, one of the most important trade and investment partner for Germany - either nominally (official trade statistics) or in the context of value added chain, whereas for Poland (2014) - No. 13 (export side) and No. 9 (import side). Another statistical example shows also the relative insignificance of Poland's trade ties with the US - our imports were 9 times lower from the US than imports from Germany. An additional problem consists in an incorrect conviction that only large companies would benefit from TTIP - both in Poland and in Germany.

For Polish companies TTIP brings a new perspective of export expansion to the US - both directly and indirectly through the value added chains in exports of main EU member states to the US with the Polish value added. Paradoxically, the indirect effects may be much

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<sup>9</sup> Transatlantic Trade and Investment Partnership (TTIP). A Family Business Appeal for Free Trade. The Family Entrepreneurs of Germany, 2014, p. 3.

<sup>10</sup> Ibidem, p. 5.

<sup>11</sup> G. Felbermayr et. al., Dimensionen..., op.cit.

stronger than direct ones. This is a consequence of bilateral trade ties of the biggest EU member states with the US.

### **Direct Effects**

Polish exports to the US amounted to US\$4.9 billion in 2014. According to London-based CEPR-Institute study<sup>12</sup> an implementation of an extensive TTIP could lead to the increase of Polish exports to the US by 58% and imports by about 60%. The biggest effect would experience electromechanical industry that accounts for the half of the Polish exports to the US. As far as particular products are concerned, this increase would concern turbojets, turboprops, gas turbines and furniture. Regionally, the increase would be felt mainly in the so-called Aviation Valley of Poland (Dolina Lotnicza). As far as new Polish companies on the American market are concerned, most expectations are awaited in the pharmaceutical and cosmetic industries.

Polish companies expect new chances connected with TTIP in new areas, partly as a result of new American foreign direct investments (FDIs). Having this in view, bilateral agreements have been signed between respective ministries (of economy and trade) and government agencies (PAIILZ and its American counterpart SelectUSA) of Poland and the US. Poland also places hopes in advanced technologies and ICT sectors. Polish expansion in the US should also be accelerated through a new initiative called SVAC (Silicon Valley Acceleration Center). This undertaking has been initiated by Polish business diplomacy aimed at new Polish companies from the following sectors: software & hardware, gaming and mobile solutions<sup>13</sup>.

### **Indirect Effects**

Polish exports to the US are conducted through those EU member states, for which both the US and Poland are significant trade partners. This applies, first of all, to the economies of Germany, the UK, the Netherlands, France, Ireland, Italy and Scandinavian states. According to Warsaw-based Institute for Market, Consumption and Business Cycles Research, Polish value added in German exports in 2006-2011 amounted to US\$10-15

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<sup>12</sup> Reducing Transatlantic Barriers to Trade and Investment. An Economic Assessment, Final Project Report. Centre for Economic Policy Research, London, March 2013.

<sup>13</sup> Cf. Informacje na temat Umowy Handlowo-Inwestycyjnej Transatlantic Trade and Investment Partnership (TTIP). Materiały do użytku wewnętrznego Ministerstwa Gospodarki oraz Sejmu RP, luty 2015.

billion yearly<sup>14</sup>. A significant part of this landed just in the US. One should also add exports from the above-mentioned countries to the US. There are no newer estimates, but given the growing role of Poland as an exporter to Germany, the figure is going to rise. According to 2014 data Poland is a trading partner No. 8 for Germany (export, import and turnover sides, respectively). During the last few years Poland has moved by 3 positions in this ranking. For Germany the US is a trading partner No. 2 (after France) on the export side but in fact No. 1 - as far as value added is concerned - according to experts of the Federal Ministry for Economic Affairs and Energy.

In 2014 German exports to the US amounted to €96 billion. As far as sectors of the Polish economy are concerned, the indirect effects concern mainly the following industries: automotive, household appliances, chemical, electric and machinery. Poland has been a net exporter of cars and car spare parts to Germany for a couple of years and especially in this industrial sector the indirect effect of TTIP should be clearly seen. The German automotive sector has been very active in lobbying for a rapid and wide-scale liberalization both as an exporter and investor. Despite many serious problems of VW on the American market recently an overall indirect TTIP effect for the Polish companies in this sector, as significant subcontractor, should be positive. **To sum up, indirect TTIP trade effects for Polish companies should be more important than the direct ones.**

### **Effects for Consumers**

The traditional barriers that exist for trade between the US and the EU in the form of customs duties have already decreased considerably in many areas. The fact remains, however, that there are individual sectors or product groups which are still subject to very high customs duties. For instance, clothing and dairy products originating in the EU and imported into the US still bear customs duties of more than 10%. There are also areas, in which the customs duties appear at first glance low, but that depends on the scope of the trade volume which could result in significant savings for the companies concerned. The burden in commodities trade still amounts in terms of the trade-weighted average to 2.1% for exports from the EU and 2.8% for imports into the EU. For EU consumers the removal of these and other tariffs is an opportunity. The welfare gains from phasing out all tariffs have been estimated as adding 0,11% to EU GDP and 0,04% to US GDP<sup>15</sup>. In practice, for Polish consumers the TTIP effect should mean a better offer of American products at lower

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<sup>14</sup> Estimates published in: Ł. Ambroziak, J. Fundowicz, T. Kalinowski, K. Łapiński, M. Peterlik, B. Wyżnikiewicz, Współpraca gospodarcza Polska-Niemcy, IBnGR, Fundacja Konrada Adenauera, Warszawa 2014.

<sup>15</sup> Cf. TTIP: Challenges and Opportunities for Consumer Protection. In-depth analysis for the IMCO Committee. European Parliament, 2015, p. 9.



prices. This should lead to a gradual phasing out of private imports from the US on the part of individual Polish consumers. Some critics maintain that an overall consumer protection in the US is of lower quality than in Europe. The same can also be heard on the other side of the Atlantic. One should hope that this specific and vital area of interest will be tackled in a responsible way during the negotiation process.

### **Macroeconomic Effects**

According to CEPR report<sup>16</sup> estimates a successful completion of TTIP negotiations should lead to an additional yearly export stimulus for the Polish economy at US\$3.1 billion and an overall macroeconomic effect of an additional growth of altogether 0.2% point in Poland's GDP. It should generate additional jobs on the Polish labour market. A precise quantification of the this effect is very hard to carry out and can be misleading. Most economists in London, Berlin and Paris cast doubt on the reliability of first TTIP job creation estimates conveyed by the European leading think tanks. As for now, there are no reliable estimates on TTIP job creation effects conducted by the Polish think tanks.

TTIP opportunities for Poland should also be perceived in the context of external economic relations. Along with miserable prospects for the Russian economy which also pulls down the Ukrainian and Belorussian economies, the conditions for the Polish companies on these markets are vague for the coming years. Many companies from Western Europe have already withdrawn from these markets, reducing trade and investment activities there. Consequently TTIP forms a new economic and geostrategic chance of consolidation of Poland with the Western civilization basing on the rule of law and social market economy principles.

TTIP negotiations reached their tenth round in Brussels in July 2015. The round was devoted mainly to agriculture, services and investment issues. The eleventh round of TTIP negotiations took place in Miami, Florida from October 19-23, 2015. During the last 11 rounds many market questions have been tackled, but ISDS problem, which seems to be the most problematic negotiations area, has not been touched upon, as yet.

To recapitulate, potential opportunities for the Polish economy should be evident although their macroeconomic extent is limited and hardly comparable with the EU-accession effect. Polish exporters should get a better market access in the US but the indirect trade effects

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<sup>16</sup> Cf. Reducing..., op. cit.



through the German exports to the US and Polish suppliers to them seem to be more important<sup>17</sup>.

### **TTIP and Polish Agriculture**

Agriculture is always a difficult area in trade negotiations. The US and the EU have butted heads on the issue of market access and export subsidies for 50 years, as each tries to protect its own farm interests and farm programmes. In many member states negotiations of agricultural issues have always been treated as 'controversial'. One of them is GMOs, the question of human life and health and animal health. Although many NGOs try to convince their members that TTIP will bring new developments in the subject, "basic laws, like those relating to GMOs or which are to protect human life and health, animal health and welfare, or environmental and consumer interests will not be part of the negotiations"<sup>18</sup>. There has never been an EU free trade agreement that has lowered EU health and food safety standards<sup>19</sup>. The majority of EU population have made it clear that they are strongly opposed to easing EU standards for health and food safety. Considering that TTIP must be approved by the European Parliament and probably (at least in part) ratified by EU member states as well. Nowadays it seems highly improbable that the EU will ease import restrictions or simplify approval procedures in areas such as genetically modified organisms or hormone-treated meat. Some parts of TTIP negotiations are not directly connected with the Polish interests in the sphere of agricultural sector. This applies to: wine, some spirits and olive oil production. TTIP decisions will also probably not interfere with the necessity of change of the Common Agricultural Policy. During the negotiation rounds Poland has presented its interests in the liberalization of some sensitive goods - poultry, eggs, egg products, some fruit and vegetables, tobacco, cheese and mushrooms. Poland has also presented the opinion that negotiations on the TTIP must take into account the differences in the competitiveness of agri-food products, resulting from the different model of agriculture in the USA and the EU. "Therefore, we support the exclusion from liberalization of those

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<sup>17</sup> This is the author's personal view expressed in W. Gadomski, T. Kalinowski, M. Rot, E. Sadowska-Cieślak, *Fakty i Mity o TTIP*, op. cit.

<sup>18</sup> European Commission *In Focus: Transatlantic Trade and Investment Partnership: Questions and Answers*. Brussels, 2014.

<sup>19</sup> *Transatlantic Trade and Investment Partnership (TTIP). Myths, Facts, & Arguments*. BDI, The Voice of German Industry. Berlin, June 2014, p. 10.

sensitive products whose production in the European Union would be jeopardized by excessive import from the United States<sup>20</sup>.

### **Regulatory Issues and Standards**

In institutional sense regulatory issues and standards pose the most important barrier to cooperation between the EU and the US. This is a more serious problem than the tariffs themselves, which as has been stated previously, are not too high. This is also a problem of not only technical nature, but also in the sphere of culture. In the long run, it is also of strategic quality for the integrating parts of the Western civilization, especially in the light of competition, mainly from Asia.

Businesses on both sides of the Atlantic are fully aware of the obvious gains to be achieved from regulatory cooperation and coherence. According to most experts, satisfactory solutions in this subject are of crucial importance for bilateral trade expansion. At present a Polish company aiming at exporting to the US must comply with numerous regulations, in many cases differing substantially from EU standards. This is connected with huge additional costs that would be avoided in the future. Especially Polish SMEs are deeply affected by these costs.

According to a study commissioned earlier (2009) by the European Commission removing all actionable non-tariff measures would translate to an increase in GDP (€122 billion per year) and exports (+2.1%). Sector-wise, EU benefits would come mainly from gains in trade in motor vehicles, chemicals, pharmaceuticals, food and electrical machinery<sup>21</sup>.

In February and April 2015 the EU put forward a draft proposal for the institution of a horizontal regulatory cooperation mechanism in order to foster it during the subsequent round of negotiations. The system would include:


- an early information requirement on planned legislation and regulation,
- a rule on non-discriminatory consultation of stakeholders,
- a requirement that the impact assessment include consideration of the impact on international obligation of the party, as well as on international trade and investment<sup>22</sup>.

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<sup>20</sup> Poland's Minister for Agriculture during the meeting on the new dimension of EU-US cooperation in the agricultural sector, June 2015, <http://www.minrol.gov.pl/eng/Ministry/News/I-am-not-an-advocate-of-the-TTIP>.

<sup>21</sup> European Commission, Non-Tariff Measures in EU-US Trade and Investment - An Economic Analysis - Highlights of the study, 18 December 2009.

<sup>22</sup> For details see [http://trade.ec.europa.eu/doclib/docs/2015/april/tradoc\\_153403.pdf](http://trade.ec.europa.eu/doclib/docs/2015/april/tradoc_153403.pdf).



The Polish side is of the opinion that the solutions in this area will not limit Polish sovereign rights to regulate in the future or lower the standards in the spheres of health care, safety and environmental protection. Poland is also vitally interested in negotiations results of the following chapters:

- Automotive sector – recognition of equivalence of a great number of vehicles safety regulations
- Chemical sector – priorities in substances, evaluation of substances, classification and labeling of products
- Medicaments – their control and identification codes
- Cosmetics – methods of safety evaluation.

## **Conclusions**

Polish and German perspectives of TTIP are basically different which results from the incomparable respective shares of exports and bilateral FDI streams to/from the US. Although both countries have partly different expectations of the overall impact of TTIP on their economies, selected Polish sectors will profit indirectly as subcontractors from export stimuli for Germany to the US. Polish public support for TTIP, one of the highest in the EU, does not result from the temperature of the public debate here which is rather sluggish and not comparable to the highly emotional and partly openly hostile attitude to TTIP in Germany.

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