Trade Sustainability Impact Assessment on the Transatlantic Trade and Investment Partnership (TTIP) between the European Union and the United States of America

Draft Interim Technical Report

Civil Society Dialogue
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Brussels, 30 May 2016
Agenda

1. SIA, what is it

2. Trade SIA
   - Model selection
   - Assumptions
   - Scenarios
   - Interpretation of results

3. Results
   - Economic impacts
   - Impacts on the MS and third countries
   - Social impacts & case studies
   - Environmental impacts & case studies

4. Stakeholder consultations

5. Way forward
SIA, what is it
What is a SIA

General features

• Carried out for all major trade negotiations
• Done by external consultants, selected through a competitive tendering procedure
• Complements & deepens initial impact assessment
• Feeds into and steers the negotiations
• Helps further integrate sustainable development issues
• Contributes to more responsible trade and investment policy
What is a SIA

What’s included in this Trade SIAs interim phase

• Overall economic analysis
• Overall social analysis
• Overall environmental analysis
• First part of the in-depth sector studies
• Stakeholder consultations
Trade Sustainability Impact Assessment
Trade Sustainability Impact Assessment

Model selection

• Quantification of expected impact of trade agreements requires a model

• CEPR (2013) model is best equipped to analyse the potential impact of TTIP, as was found in a comparative study for the EP by CEPS (2014)
  – Note: no perfect model exists, limitations to be discussed later

• Results of CEPR (2013) are highly comparable to other respectable studies

• Two outliers
  – GED Bertelsmann (2013) with very positive results
  – Capaldo (2014) with very negative results
Trade Sustainability Impact Assessment

Model Selection

• Update of CEPR (2013) to better fit this TSIA’s requirements and EC demands:
  – Updated the baseline
  – Results presented for 2030 instead of 2027
  – Specific results of the impact on Turkey
  – Impact at the Member State level
  – Disaggregation of several sectors:
    » “Agriculture, forestry, fisheries and other primary sectors”
    » “Processed food” (No NTM reduction modelled)
    » “Metals and metal products”
    » “Other manufactures”
    » “Other services”
Trade Sustainability Impact Assessment

Assumptions

• Several necessary assumptions:
  – Fixed labour supply closure; increase in labour demand is reflected in wage increases
  
  – Labour is mobile across sectors; in 15 years, work force is expected to be able to adjust to new/growing sectors
  
  – Degree of liberalisation is based on proposed position papers and ambitions of EC, as opposed to final and conclusive texts
  
  – Estimation of trade costs of non-tariff measures (NTMs)
  
  – Magnitude of spill-over effects
    ◦ Regulatory alignment between EU/US lowers production costs
Trade Sustainability Impact Assessment

Scenarios

• The TSIA report includes two different scenarios

<table>
<thead>
<tr>
<th>Less ambitious scenario</th>
<th>Ambitious scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>98% of tariffs are eliminated</td>
<td>100% of tariffs are eliminated</td>
</tr>
<tr>
<td>10% of NTMs eliminated for goods</td>
<td>25% of NTMs eliminated for goods</td>
</tr>
<tr>
<td>10% of NTMs eliminated for services</td>
<td>25% of NTMs eliminated for services</td>
</tr>
<tr>
<td>25% of NTMs eliminated for procurement</td>
<td>50% of NTMs eliminated for procurement</td>
</tr>
</tbody>
</table>

Note: 50% of all NTMs are assumed to be “actionable”. No reduction in NTMs for processed foods
Trade Sustainability Impact Assessment

Interpretation of the Results

- Estimated impact applies to GDP level, not GDP growth!
Trade Sustainability Impact Assessment

Interpretation of the Results

• Impact results can be split into 5 components
  – Impact from tariff reduction
  – Impact from a reduction in NTMs on goods
  – Impact from a reduction in NTMs on services
  – Impact from direct spill-overs
  – Impact from indirect spill-overs

Impact of direct spill-overs
  Effect on the EU of increased trade with third countries due to more aligned EU/US regulation

Impact of indirect spill-overs
  Effect on the EU of increased trade among third countries due to more aligned EU/US regulation
Economic impact
Economic impact

Main results

• Moderate gains in ambitious scenario
• EU maintains its trade surplus with US, despite lower growth in exports

◦ Results are presented for 2030

<table>
<thead>
<tr>
<th>Indicator</th>
<th>European Union</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP in 2030</td>
<td>+ 0.5 percent</td>
<td>+ 0.4 percent</td>
</tr>
<tr>
<td>High-skilled wages</td>
<td>+ 0.5 percent</td>
<td>+ 0.3 percent</td>
</tr>
<tr>
<td>Low-skilled wages</td>
<td>+ 0.5 percent</td>
<td>+ 0.4 percent</td>
</tr>
<tr>
<td>Total exports</td>
<td>+ 8.2 percent</td>
<td>+ 11.3 percent</td>
</tr>
<tr>
<td>Total bilateral exports</td>
<td>+ 27.0 percent</td>
<td>+ 35.7 percent</td>
</tr>
</tbody>
</table>
Economic impact

Decomposition of results

• Impact of regulatory cooperation trumps tariff liberalisation
Economic impact

Sectoral results

- Some sectors are set to benefit from TTIP, others may decline

<table>
<thead>
<tr>
<th>EU Sector</th>
<th>Declining sectors (% change)</th>
<th>Growing sectors (% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leather, textiles and clothing</td>
<td>1.8 - 2.7</td>
<td></td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>Beverages, tobacco</td>
<td>1.1</td>
<td></td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>-7.9</td>
<td></td>
</tr>
<tr>
<td>Non-ferrous metals</td>
<td>-3.0</td>
<td></td>
</tr>
<tr>
<td>Iron and steel products</td>
<td>-2.5</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>US Sector</th>
<th>Declining sectors (% change)</th>
<th>Growing sectors (% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-ferrous metals</td>
<td>3.2</td>
<td></td>
</tr>
<tr>
<td>Other meats</td>
<td>2.2</td>
<td></td>
</tr>
<tr>
<td>Other machinery</td>
<td>1.5</td>
<td></td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>-2.9</td>
<td></td>
</tr>
<tr>
<td>Beverages, tobacco</td>
<td>-2.6</td>
<td></td>
</tr>
<tr>
<td>Electrical machinery</td>
<td>-2.4</td>
<td></td>
</tr>
</tbody>
</table>
Economic impact

Member States results

- Economic integration with the US is the main explanation of different results
Economic impact

Third country results

• Marginal role for traditional trade creation and diversion

• Position in global value chain also determines impact;
  – positive for those countries that supply primary and intermediate goods to EU/US
  – negative for those countries that are direct competitors of the EU/US

• Turkey; imports from US increase massively, exports lag behind, as access to US market is not improved
Economic impact

SME results

• Small and Medium-sized Enterprises are the backbone of EU (and US) employment

• Oftentimes, entrepreneurs face information gaps that require large sums of money to overcome (e.g. through learning by doing)

• Other practical trade concerns that can be addressed in TTIP to the benefit of SMEs:
  ◦ Lengthy customs procedures
  ◦ Unnecessary differences in testing requirements
  ◦ Tariff peaks
Social and environmental impact
Social impact

Quantitative social effects

• Overall EU real wages increase by 0.5 percent

• Overall EU consumer prices increase by 0.3 percent
  ◦ Partially explained by labour market closure assumption of model
  ◦ Imported goods from the US become cheaper
  ◦ Some EU products may get more expensive due to increased US demand
  ◦ Overall effect depends on composition of basket of goods and services
Social impact

Quantitative social effects

• Changes in sectoral employment and wages are directly linked to changes in sectoral output.

• Very small labour displacement effects
  – Baseline: 37 out of 1000 workers change sectors every year
  – TTIP adds 6 to that figure, well within market trends

• TTIP’s effect on inequality will be negligible; Gini coefficient increases by 0.07 percent (from 30.00 to 30.02)
Social impact

Qualitative social effects – case studies

- ILO Fundamental Conventions (FC)
  - EU has ratified and implemented all 8
  - US has ratified 2 (1 pending)

- TTIP is unlikely to lead to ratifications by the US, as law and practice prevents it, though often US legislation is in line with FC.

- Sustainable Development chapter contains commitments on labour standards that are comparable with FC; becomes legally binding, but enforcement is still unclear.
Social impact

Qualitative social effects – case studies

• TTIP and Human Health

  • Tariffs on tobacco, alcohol, sugars, *(between 0.6 and 22 percent)* will be reduced. Demand for these goods may increase if prices go down, depending on price inelasticity.

  • Note: tariffs on *healthy commodities* will also be removed.

  • Right to regulate in the area of human health is maintained, so that these adverse effects can be mitigated

  • Tariffs on *medical devices* *(between 0.9 and 2.1 percent)* will also be reduced, leading to lower costs. However, regulatory cooperation would have larger benefits
Social impact

Qualitative social impact – case studies

• TTIP and Public Health Services

• Within the GATS framework, four guarantees of the *right to regulate* were concluded. TTIP is likely to include this same set of criteria:
  ◦ MS are free to regulate their public health sector with their own level of quality standards
  ◦ MS do not have to give access to public health services providers from outside the EU
  ◦ Governments can organise public services in a way that only one firm provides the service
  ◦ MS are free to provide subsidies to the public health sector
Social impact

Human Rights

• *HR to an adequate standard of living*
  – Ambitious agreement; **positively** affected if real disposable income goes up for the poorest income groups
  – Less ambitious agreement; consumer price increase is not met by higher wages for lowest strata, possibly **negative** effects

• *HR to culture, HR to education* and *HR to the protection of personal data* are excluded from mandate or safeguarded by GATS agreement (public services)

• HR to information has improved during negotiations, enhanced transparency and inclusion of civil society
Environmental impact

Quantitative environmental effects

• Important note at the outset; model results assume no change in EU’s energy mix

• In reality, Paris Agreement and EU policies may lead to changes in the energy mix

• Mitigating measures certainly possible, environmental impact per sector is known

<table>
<thead>
<tr>
<th>Indicator</th>
<th>European Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy demand</td>
<td>+ 0.2 percent</td>
</tr>
<tr>
<td>Demand for coal, natural gas</td>
<td>+ 0.2/0.3 percent</td>
</tr>
<tr>
<td>CO2 emissions</td>
<td>+ 0.2 percent</td>
</tr>
<tr>
<td>Air pollution</td>
<td>No significant change</td>
</tr>
</tbody>
</table>
Environmental impact

Qualitative environmental effects – case studies

• Energy Efficiency

• If high ambition levels in areas of regulatory cooperation are met, energy efficiency could lead to a reduction of 0.3 percent of total EU energy use

• Largest impacts to be expected from international standards in test procedures and mutual recognition
Environmental impact

Qualitative environmental effects – case studies

• Fossil Fuels

  • No direct trade effect

  • Removal of US LNG export ban could benefit EU’s environment;
    ◦ More imports of LNG could lead to less adverse environmental impact, if it replaces coal in the EU
    ◦ With current oil and gas prices on global markets, limited trade is expected; though with possible higher prices in the future, increased supply from the US may keep prices down

• Autonomous measures following Paris Agreement likely to have larger impact
Environmental impact

Qualitative environmental effects – case studies

• Illegal trade in natural resources

• Illegal trade in goods destined for, or passing through the EU/US markets is significant
  – Annual value of seizures; EUR 500 mln
  – Coral and Medicinals make up half of the total seizures

• Both partners have developed, or plan to develop, comprehensive legislation to tackle illegal trade flows, such as illegal, unreported and unregulated fishing, trade in timber and wildlife.

• Most positive impact to be expected on third countries from cooperation between TTIP parties
Stakeholder consultation
Stakeholder consultations

Stakeholder list

• 280 emails received with questions/input/feedback

<table>
<thead>
<tr>
<th>Stakeholder Sector</th>
<th>Number of EU stakeholders</th>
<th>Number of US stakeholders</th>
<th>EU stakeholders reaching out to us #</th>
<th>% share per sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business/industry</td>
<td>355</td>
<td>17</td>
<td>65</td>
<td>18%</td>
</tr>
<tr>
<td>Environmental</td>
<td>40</td>
<td>3</td>
<td>10</td>
<td>25%</td>
</tr>
<tr>
<td>Social</td>
<td>81</td>
<td>5</td>
<td>35</td>
<td>43%</td>
</tr>
<tr>
<td>Other</td>
<td>81</td>
<td>31</td>
<td>23</td>
<td>23%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>557</strong></td>
<td><strong>56</strong></td>
<td><strong>133</strong></td>
<td></td>
</tr>
</tbody>
</table>

• Bilateral meetings

• TTIP events, other than organised by the Commission
Stakeholder consultations
Consultation tools used

The #Ecorys #TSIA #TTIP study team is pleased to announce the publication of the draft Interim report. bit.ly/1TaCdvx

Join the #Ecorys #TSIA #TTIP sector workshop on the 3rd of June to discuss the preliminary sectoral impacts bit.ly/27DqE4A

Don't forget to subscribe for the EU-China CSD on the #Ecorys inception report. Registration closes on May 23 12.00 bit.ly/1Tl6ogC

Join the CSD on May 26 and give your feedback on the EU-China draft report or send it to sia-china@ecorys.com. bit.ly/1Tl6ogC

Civil Society Dialogue
On the 30th of May we will present the draft Interim Technical Report to all interested stakeholders. During the presentation we will present you the updated results and the potential economic, social, human rights, and policy implications associated with a possible TTIP.
Stakeholder consultations

Future consultation activities

• Stakeholder workshop – sectoral impacts;
  • Friday 3 June
  • Deadline for registration – today, 23:59 hours
  • Register via http://www.trade-sia.com/ttip/consultation/event-registration/

• Interviews;

• Civil Society Dialogue (draft final report);

• Continuously updating the website and social media tools
Time table and way forward
Timeline and way forward

<table>
<thead>
<tr>
<th>Activity / Deliverable</th>
<th>Dates</th>
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<tbody>
<tr>
<td>&quot;Impacts of TTIP at sector level&quot; Civil Society workshop by Ecorys</td>
<td>Friday 3 June</td>
</tr>
<tr>
<td>Online publication of Final Interim Technical Report</td>
<td>June</td>
</tr>
<tr>
<td>Online publication of draft Final Report by Ecorys</td>
<td>October</td>
</tr>
<tr>
<td>Public Civil Society Dialogue</td>
<td>October</td>
</tr>
<tr>
<td>Online publication of Final Report by Ecorys</td>
<td>November</td>
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Interim Technical Report
- Improve the Interim Technical Report for final publication
- If you want to send further points / comments please do at tsia-ttip@ecorys.com. Deadline for comments Thursday 9 June

Final report
- Sector workshop
- Impact analyses at sector level;
- Conclusions and recommendations at sector level;
- Overall conclusions and recommendations.
Timeline and way forward

Let’s stay in touch!

1. Email    tsia-ttip@ecorys.com
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3. Facebook  TSIA TTIP [page]
4. Twitter   @EcorysTrade
Thank you for your attention