European Commission

European Commission services' position paper on the sustainability impact assessment in support of negotiations of the Transatlantic Trade & Investment Partnership between the European Union and the United States of America

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1. Introduction

This paper sets out the European Commission services' position on the Sustainability Impact Assessment (SIA) on the Transatlantic Trade and Investment Partnership (TTIP) between the European Union (EU) and the United States of America (US). Negotiations for TTIP started in 2013, and are currently on hold following the change of US Administration. A joint report on the state of play of the TTIP negotiations at the end of the Obama Administration is available online and both the SIA and the present paper of the Commission services are without prejudice to this factual state of play.

SIAs are trade-specific assessments carried out by external consultants to support major trade negotiations. The Commission has been carrying out SIAs as part of the EU's trade policymaking since 1999. They are designed to provide negotiators and policymakers with an evidence-based *ex ante* assessment of the potential sustainability impacts that may arise from a proposed trade agreement.

The TTIP SIA was commissioned by the European Commission's Directorate-General for Trade and was carried out by independent consultancy company Ecorys. It was completed in February 2017.

It builds upon the Impact Assessment conducted by the Commission in 2013 that accompanied the process up to the opening of the TTIP negotiations, drawing on the methodological framework set out in the Commission's Handbook for Sustainability Impact Assessment.[1]

[1] This revised version of the SIA Handbook was published in April 2016 when the interim phase of the TTIP SIA was well underway. Although the SIA consultants broadly follow the approach outlined therein, it should be noted that the terms of reference specifying the analytical requirements under which the SIA was produced were based on the previous Handbook.

The SIA extends the analysis of the potential impacts of TTIP to social and labour aspects, human rights, and the environment, as well as to EU competitiveness (with a special focus on SMEs), consumers and impacts on developing countries and least developed countries (LDCs). The SIA also examines more in-depth the potential impacts on a number of economic sectors, such as agri-food, automotive and financial services.

The SIA process run by Ecorys involved a wide consultation of stakeholders, including three meetings with civil society organisations in Brussels attracting over 250 people, several workshops, a number of bilateral meetings and interaction via social media channels. Stakeholders were invited to contact Ecorys at any time during the process, with further information available on a dedicated website.

In general terms this SIA met the minimum requirements set out by the Commission, though these had to be adapted in the course of the study to deepen the analysis due to growing interest in the agreement among civil society. This explains why this SIA is much longer than an average one.

The final report is publicly available[2].

This document constitutes the Commission's response to this SIA's findings and recommendations.

2. Overview of the consultant's findings

The TTIP SIA includes a quantitative analysis of TTIP's impacts on the EU in economic, social and environmental terms. This is carried out in the context of wider reviews of the literature, the EU's positions in the negotiations and a variety of stakeholder perspectives.

There are six qualitative case studies in the report, covering health impacts, public health services, labour rights, trade in unconventional resources, illegal trade in natural resources, and energy efficiency. There are also chapters covering seven sectors (agrifood, chemicals and pharmaceuticals, motor vehicles, mechanical engineering, electrical and electronic engineering, air and maritime transport, and financial and insurance services) which look in-depth at the quantitative results and the context. Impacts on SMEs are considered in several parts of the report. There is a specific section on impacts on developing countries, and also on Turkey. Finally, there is a section on TTIP's impact on human rights.

[2] More information on DG Trade's website

2.1. Economic impacts

Overall, the quantitative analysis forecasts that TTIP would boost the EU's **GDP** by 0.5% every year after 2030, increase **national income** by 0.3%, and increase **wages** by 0.5% for both high and lower-skilled workers. It would increase EU **exports** to the US by 27% and US exports to the EU by 35.7%.

In terms of **sectors** (section 3.4), the largest output gains from TTIP in percentage terms accrue to the motor vehicles (1.5%), leather/textiles and clothing (1.8-2.7%), and beverages and tobacco (1.1%) sectors. The largest losses are found in the electrical machinery (-7.9%), non-ferrous metals (-1.1%) and iron and steel (-2.5%) sectors.

Compared to CEPR (2013), the updated analysis offer insights into a greater number of sectors (from 20 to 38). This was done in order to meet the request from stakeholders that wanted to have more information regarding the impacts on specific industries. However, there are limitations in terms of how much sectorial detail the CGE-based analyses can deliver given the restrictions in terms of data availability.

One such restriction is the **absence of data on NTBs that affect trade in the agricultural and processed foods sectors**. The reason is the need to ensure that only robust and accurate data is used, so as explained in section 1.4 of the SIA, the updated analysis does not consider in the policy simulation any cuts in NTBs to trade in these goods. This was a decision taken on purely technical grounds and does not reflect any change to the EU's negotiating ambitions. However, it means that caution is needed when comparing these results with those from CEPR (2013).

It is important to be aware that the results in percentages mask the real size of the sectors and thus the impact of the effects. For example, the **baseline added value** of the motor vehicles sector (1.6%) to the EU economy is one third larger than the leather/textile and clothing sector (1.2%). Similarly, the added value of the other machinery sector (4.3%), which shows a relatively small output gain of 0.4% in the model, is more than four times that of the electrical machinery sector (0.8%) which shows the output loss of -7.9%. On the services side, the construction sector shows a relatively small output gain of 0.5%, but this is from a **baseline output** level of €1.7bn. For comparison the iron and steel sector's output was worth €287m. Other services sectors also show relatively small output gains in percentage terms which actually represent significant benefits. The SIA seeks to demonstrate these points with the data on added value and output in tables 3.10 and 3.11.

The reasons why some sectors experience losses in the model need to be properly understood. TTIP's effect will be to boost growth in sectors that enjoy competitive advantage in transatlantic terms, which means that in the model, resources will be pulled from sectors that are less competitive in transatlantic trade to serve demand in those sectors that will be growing faster. In the case of **electrical machinery**, both the EU and US are less competitive than some third countries in some specific parts of the sector. This would have the side effect that the EU and US see a decline in the electrical machinery sector in 2030, compared to what would happen without TTIP. On the other hand, the **other machinery** sector (e.g. precision medical, scientific and technical instruments), which is much larger, sees an output gain of 0.4% in the EU. The structure of the underlying GTAP database means that in the model, different parts of the electrical and electronic industry are split between the two sectors, which complicates the issue. Industry stakeholders note the highly globalised value chains in the two sectors, and strongly believe that TTIP will benefit the sector as a whole. Chapters 9 and 10 of the SIA look into these points in more detail.

The decline in the output of the **iron and steel** sector shown in the SIA also reflects the set-up of the CGE model. Since tariffs between the EU and the US in this sector are low, and the regulatory requirements are also relatively similar, the benefits for the sector from TTIP will come from increased demand from downstream sectors such as motor vehicles that will see higher output. On the other hand, the sector will also release resources to other industries that will be more positively impacted by the new opportunities in the EU market. According to the CGE results the sector will become slightly smaller and more reliant on exports (up nearly 13%).

The results for **Member States** (section 3.3) naturally vary from the EU average GDP increase of 0.5%. Ireland (1.4%), Belgium (1.2%) and Lithuania (1.1%) are at the higher end of the range, while the Czech Republic (0.2%), Poland (0.1%) and Malta (0.1%) are at the lower.

One factor driving this variation is the intensity of the existing **trade relationship with the US**, which differs substantially across Member States. This has also been signalled in other reports (e.g. WTI/AmCham, European Parliament Research Service). For countries that already have strong direct trading relationships with the US, such as Ireland, Belgium and the UK, removing barriers has a large and immediate effect on existing trade. For countries who do not (e.g. Malta, Hungary), the effect is smaller as it takes time for new trade to develop. However, we cannot overlook the fact that all European economies are deeply interconnected. As the EU continues to strengthen and improve the functioning of its own Internal Market (notably in the area of services), the more the gains from an enhanced commercial relationship with important trade partners like the US could be expected for all Member States.

In addition, the benefits from the various policy changes foreseen in TTIP will also be **unevenly distributed** across Member States. For example, those Member States that are more specialised in sectors with higher tariffs can expect to see greater impact from tariff elimination. Those that are specialised in sectors for which TTIP is likely to agree new regulatory cooperation can expect to see greater impact from these changes (e.g. the car sector in Eastern European Member States).

Moreover, for technical reasons as already noted, the model assumes that there will only be tariff cuts in the agricultural and processed foods sectors (e.g. fruit and vegetables, dairy, wines and spirits, cheese and processed meats) and no reduction of NTBs. This means that for those Member States that are more specialised in exporting agricultural and processed foods (e.g. Poland), the analysis will tend to show lower benefits. However, the Commission's level of ambition with regards to the reduction of NTBs in the agricultural and processed foods sectors remains high, and we expect TTIP to bring significant benefits to those Member States with high trade flows to the US in these sectors.

Moreover, the CGE model does not measure the potential impacts on **foreign direct investment** (FDI). This is a serious limitation because we might expect significantly higher FDI between the EU and the US as a result of TTIP – from an already very high base level (60% of US FDI went to the EU in 2015). In particular, this means that the model downplays the potential gains in services, as market access in many services industries is done mainly via commercial presence. This matters for services-driven economies (e.g. Hungary, Malta). What's more, the potential impact of TTIP in promoting the further involvement of US companies in EU value chains is not captured. This is important for Member States (e.g. Hungary, Slovakia, Czech Republic) that specialise in intra-EU value chains in sectors likely to benefit significantly from TTIP (e.g. the car sector). The fact that a potential increase in investment by US companies is not captured in the CGE simulation may significantly underestimate the real impact of TTIP in these economies.

The SIA shows that TTIP's **impact on most developing countries** will be neutral or low. Low Income Countries will see no change in their GDP and a rise in exports (0.3%). On the other hand, ASEAN will see a significant GDP rise of 0.5% owing to its members' role in global supply chains and therefore benefits from spill-overs. The report includes a literature review, which confirms that clear-cut effects on developing countries and least-developed countries (LDCs) are difficult to pin down, as it depends on the precise nature of trade with the EU and US (for example, position in the supply chain for key sectors, role of raw materials) and also on the effects of spill-overs from the regulatory part of TTIP. Certain third countries with close trade links to the US (Brazil, Mexico, Canada) may see some trade diversion. The report takes into account specific examples of sectors in developing countries which may win or lose as a result of TTIP (e.g. cars in South Africa and cocoa in Ivory Coast may benefit, fruit juice in Brazil may suffer).

Regarding **Turkey**, while TTIP is likely to lead to a significant increase of imports from the US (23.7%), in fact the overall indications of the SIA for Turkey are moderately positive, even in the absence of a US-Turkey free trade agreement. Turkey's GDP would see an increase of 0.1%, as would household income and wages for both high and lower-skilled workers.

Finally, in the economic part, the SIA uses the results of a 2015 survey of **small and medium-sized enterprises (SMEs)** to discuss the potential impacts of TTIP on this very diverse group of companies. It also briefly looks at the effects on SMEs operating in key sectors such as agri-food and automotive. SMEs represent 88% of the number of EU exporting companies and 28% of the value of EU exports to the US. TTIP will make it easier for these exporting SMEs to move into the US market and to participate in transatlantic and US supply chains by lowering export related costs and trade barriers. They will also gain from cheaper imports of intermediate products from the US, which will boost the quality and price competitiveness of their exports.

2.2. Social impacts

Though the SIA indicates a small increase in **consumer prices** in the EU in 2030, at the same time everyone would see a rise in **household income** that more than compensates for this. According to the updated CEPR analysis, real wages would increase by 0.5% for both high and low-skilled workers – and this already takes into account the projected increase in consumer prices. What's more, the second model used by the consultants to analyse social and environmental effects (the E3MG model) confirms this result, indicating an average 0.4% increase in household income after taking the consumer price effect into account. For all households, this rise in income is much more significant than the increase in consumer price levels, which is well within the variation seen in regular consumer price indices used to calculate inflation.

TTIP's significance as a trade agreement between two very large economies, whose consumers have similar purchasing power, is the main underlying reason for the small increase in overall consumer price levels in the EU. The opening up of the EU market to US producers will result in more imports of many products from the US entering the EU at lower prices. This will put downward pressure on the price of many products in the EU. At the same time, a sudden and large increase in demand from the US for the products in which the EU has a competitive advantage over US producers will mean that EU producers will increase their exports significantly. This could lead to slight price increases in the domestic market, depending on how fast supply of these products can catch up with demand. Therefore for consumers, the overall effect depends on the relative importance of what they buy regularly.

However, there are some caveats to this explanation. In particular, the modelling framework assumes that **labour supply** is fixed, i.e. there is no effect on the level of employment overall. This means that in the model, any increase in labour demand in the sectors that need to expand output will be met by an increase in wages, which will ultimately increase firms' costs. This will eventually be passed on to consumers via price rises. While this might be a reasonable assumption in the model's long run horizon, the immediate effect on prices is likely to be less. An increase in demand is more likely to lead firms first to employ more people (and raise output) rather than to increase wages. Moreover, the model does not take into account the potential impact of trade-driven innovation that may also contribute to reducing costs of production and therefore prices.

Again, a further caveat is that NTBs in the **agricultural and processed foods sectors** are not taken into account by the model. Therefore the downward pressure on food prices is more limited than one might expect in reality. This also helps to explain the slight aggregate increase in consumer prices in the EU, given the importance of food in the consumption basket of EU citizens used in the E3MG model. This also affects the impact of TTIP across different income categories. It is one of the reasons why the results of the World Trade Institute (WTI) / AmCham EU study of January 2016 concluded that the effect of TTIP on consumer prices would be overall neutral, because this study looked at the food sector in aggregate and so did apply a reduction of NTBs.

Turning to the case studies, the report assesses the likely effects of TTIP on EU and US commitments under the **International Labour Organisation (ILO)**. It concludes that for reasons of existing US law and practice, the US is unlikely to sign up to any more ILO fundamental conventions; however, the EU's proposal for a Sustainable Development chapter includes comparably high standards that would be binding on the US if included in TTIP.

The consultants also examine the potential impacts of TTIP on **public health**. One case study discusses whether higher trade in certain commodities (sugar, alcohol and tobacco) may affect public health. It concludes that EU Member States have full regulatory space to deal with the risks identified. A third case study looks at TTIP's effects on public health services in the EU. Again, it indicates that TTIP will not change EU Member States' ability to manage their own public healthcare systems.

The report also includes analysis of TTIP's potential effects on **employment at sector level** (section 4.2.1). As explained in the introduction to the report, the CGE model used cannot predict job losses or gains: it assumes a fixed labour supply (i.e. no changes in overall number of workers) in order not to distort the other results. However, it does assess potential changes in employment by sector. These results are very similar to the output results and the explanations are as above.

2.3. Human rights impacts

The human rights analysis included in the report (section 4.5) looks in detail at a wide range of rights and potential impacts of TTIP. It concludes notably that an ambitious TTIP deal is likely to raise **living standards**, owing to the benefits to all income groups discussed above. It notes that in other cases, such as the right to the **protection of personal data**, the right to **education** and the right to **culture**, TTIP will not have any effects because it does not cover or explicitly protects these areas of legislation, whether at EU or Member State level.

2.4. Environmental impacts

The quantitative analysis in Chapter 5 indicates that TTIP would lead to a 0.2% rise in **energy demand**, linked to higher output, and **CO2 emissions** would also rise by the same amount. This is due to changes in output between different sectors, ranging from decreases in the metals sector to increases in the textiles, construction and food and drink sectors. **Air pollution** in the EU would not be significantly affected. However, the SIA also points out that the model assumes no other policy changes regarding the EU's future energy mix or other environmental policies, although both the EU and the US are committed to significant action on climate change, in particular via the 2015 Paris Agreement. For example, the EU and its Member States are committed to a binding target of at least a 40% domestic reduction in greenhouse gas emissions by 2030 compared to 1990. So it is reasonable to expect that environmental and energy policies will mitigate these potential effects of TTIP.

On the qualitative side, the first case study looks at TTIP's potential effects on **illegal trade in natural resources** (fish, timber and wildlife). It suggests that combining the forces of the EU and the US to tackle illegal trade could offer significant benefits, in particular as regards action towards third countries.

A detailed case study on trade in **fossil fuels**, which TTIP may further encourage in the case of gas, notes the potential benefits to the EU of more diverse sources of gas supply. The consultants also note that it would be important to look at the environmental credentials of US sources of gas and compare them to those of the energy sources it may replace in the EU, before considering whether or not imported gas from the US may be more environmentally beneficial.

The final case study examines TTIP's impacts on **energy efficiency**. Looking in particular at regulatory cooperation, it notes that over time, greater exchanges of information, removal of duplicative testing requirements and more use of international (multilateral) standards in key sectors between the EU and US could lead to energy savings up to 0.3%.

2.5. Sector chapters

Agri-food

This chapter discusses the potential impacts of TTIP on the primary agricultural sector and the processed foods sector. It examines the EU's exports to the US and imports from the US, and the associated tariff and non-tariff barriers. It notes in particular that the EU has a significant trade surplus with the US in spirits, wines and beer. There are high tariff peaks on both sides, for example in the dairy and beef sectors. Regarding NTBs, the consultants mention in particular the US "Grade A" Pasteurized Milk Ordinance which restricts access for EU milk products, the remaining US restrictions on imports of EU beef linked to the past EU outbreak of bovine spongiform encephalopathy (BSE) in the 1990s, and the time-consuming US approval procedures for EU fruit and vegetables. Since the costs of these NTBs could not be accurately calculated in the model, as explained in Chapter One of the SIA, the quantitative results in this chapter are likely to be underestimated. The consultants note significant benefits for the beverages, dairy and processed foods sectors, though potential vulnerabilities in the meats and rice sectors. They also note that the European Commission has repeatedly emphasised that there will be no lowering of food safety standards, including but not limited to EU regulations on genetically modified organisms (GMOs) and hormone-treated meat, in TTIP.

Chemicals and pharmaceuticals

In the case of the chemicals and pharmaceuticals sectors, there are two important caveats noted by the consultants. First, the model scenarios used bear no relation to the actual negotiating position of the EU regarding chemicals. Second, the model scenarios include pharmaceuticals as part of the chemicals sector, whereas in reality there are big differences between the two in terms of transatlantic trade, for example no tariffs on pharmaceuticals. There are also big differences in terms of the EU's approach in the negotiations: in the case of pharmaceuticals, an agreement on mutual recognition of factory inspections (for Good Manufacturing Practices, or GMP) is envisaged, whereas no mutual recognition at all is on the table for chemicals. So while this chapter does offer some indications of current EU-US trade in the chemicals and pharmaceuticals sectors, and the barriers involved, the quantitative results should be considered hypothetical.

The chapter notes the wide divergence in the EU and US approaches to chemicals regulation, as indeed the EU's negotiating position already takes into account since it excludes equivalence and envisages information-sharing and cooperation within the existing legal frameworks and procedures, with potential work on alignment of classification and labelling of chemicals based on multilateral rules (the UN Globally Harmonised System). The chapter clearly mentions the EU position that both sides' right to regulate will not be affected. It also notes the potential benefits of reducing duplicative procedures in the pharmaceuticals sector, such as inspections and clinical trials that have already been carried out by one side's authorities.

Mechanical engineering
Electrical and electronic equipment

Chapters 9 and 10 on mechanical engineering and electrical and electronic equipment also require a caveat regarding the quantitative results. As explained by the consultants, the precise classification of what is covered under this sector varies slightly between the different statistical nomenclatures used in the study (the GTAP database, the HS code and the NACE code).

In the mechanical engineering sector, the EU enjoys a large trade surplus with the US and tariff barriers appear relatively low (though given the volume of trade, with almost €60 billion exports to the US in 2014, reductions would still be meaningful). In the electrical and electronic equipment sector, the EU has a smaller trade surplus with the US, and tariff barriers are also low (though again the volume of trade at just over €40 billion exports to the US in 2014 indicates that reductions would still be valuable). In both sectors, non-tariff barriers related to standards and conformity assessment are high, and could be reduced through regulatory cooperation in TTIP. The consultants note that the industry believes encouraging greater use of international (multilateral) standards in the US would bring significant benefits to EU exporters, who currently face a wide variety of private technical standards in different US states.

The model indicates a potentially large (7.9%) decline in the output of the electrical machinery sector. The reasons for this are explained in section 2.1 above.

Motor vehicles

The US is the most important export destination for the EU automotive sector, with exports worth over €46 billion in 2014. Tariffs are generally higher on the EU side. The consultants make a short review of the literature on NTBs in the sector owing to the differences between US and EU regulations. Tackling these barriers in TTIP through regulatory cooperation could lead to significant benefits for the sector, indeed the largest identified in the SIA with a potential 1.5% increase in output on the EU side and over 40% rise in exports. The consultants also mention the potential benefits of future cooperation on emissions regulations in the sector, which is not currently envisaged in TTIP.

Air and maritime transport

Similar to automotive, the US is the most important export destination for the EU air and maritime transport sectors, with exports valued at almost €20 billion and €12 billion respectively in 2013. This may reflect the high levels of goods trade between the two sides. The consultants identify very significant NTBs to EU exports in both sectors, including the Jones Act which restricts shipping services, restrictions on shipbuilding and repair, and restrictions on ownership of air transport companies. Dealing with these barriers in TTIP, for example through targeted exceptions to the Jones Act for EU companies, could lead to benefits worth over a 1% increase in exports for both sectors.

Financial and insurance services

In both the EU and US, the financial and insurance services sector makes a major contribution to GDP (over 5% in the EU's case). Trade between the two sides is very significant, with around 40% of the EU's exports destined for the US. The consultants note that the sector has strong links with the wider economy, for example through interest rates. The financial crisis led to major reforms on both sides of the Atlantic, which have led to some divergence in regulatory requirements. Addressing these differences via greater regulatory cooperation in TTIP, though without affecting either side's right to regulate, could help to reduce risk in the sector and also therefore to boost growth, with output increases of between 0.4% and 0.83% for financial services and insurance respectively. The consultants note that the model does not take into account foreign direct investment (FDI), which may increase if barriers to trade in the financial sector are reduced, and could have significant positive impacts for growth and jobs across the wider economy.

2.6. Consultation and communications

Chapter 14 sets out the work of the consultants to identify stakeholders, engage with them and communicate on the progress and findings of the SIA. The consultants have undertaken a number of outreach activities including three Civil Society Dialogue events in Brussels and several workshops. They also run a dedicated website for the SIA, and maintain specific social media channels. The chapter notes that out of the stakeholders they have identified, more than half are from business or industry groups, with the remainder made up of social and consumer groups, environmental groups and an "other" category which includes for example academics.

3. Commission services' views on the findings and recommendations

3.1. Methodology

As a result of stakeholders' feedback and requests for further insights during the inception stage of the SIA, the Commission decided to ask CEPR to **extend and update the economic assessment** of TTIP done in 2013. The updated analysis is based on the same model as the CEPR (2013) study. However, the simulations were run again by CEPR with three key differences, in order to capture specific requests from stakeholders. These differences are:

- **a)** a greater disaggregation of **sectors** from 20 to 38, in order to provide an assessment of TTIP's impact across more sectors;
- **b)** the disaggregation of **Turkey**-specific results to take into account the fact that Turkey has a customs union with the EU in the industrial sector;
- **c)** the disaggregation of the macroeconomic results from EU-wide to each of the 28 **Member States**, again to look in more detail into TTIP's impact across the EU.

Also, given that more than two years had passed since the original study, the new simulations were done against an updated baseline (that runs up to 2030) to pick up the changing outlook for the global economy.

The CGE (computable general equilibrium) model used for this analysis is state-of-the-art, and includes several innovations. It accounts for economies of scale, monopolistic competition and changes in varieties in certain manufacturing sectors. This means it is well equipped to capture how different firms would adjust to transatlantic trade liberalisation.

However, like all economic modelling tools, CGE models are necessarily simplified versions of the real economy. They do not take foreign direct investment into account, for example, which is very significant for international trade in services. They also have limitations in terms of the insight they can provide for very specific sectors and markets. Notably, while the CGE model used for the SIA can predict shifts in labour between sectors, it cannot predict the impact on jobs. As noted above in section 2.5, for technical reasons it also does not take into account reductions in NTBs in the agricultural or processed foods sectors. These two issues are further explained in Chapter One of the SIA (section 1.4).
The Commission is confident that the results of the updated CEPR analysis that are included in the SIA are accurate and reliable. It takes a conservative approach, and is at the mid-range of most other studies carried out on TTIP. It is still an ex-ante analysis based on a model simulation. It therefore cannot precisely predict the outcome of the negotiations (as they are still ongoing), and it has methodological limitations like any other modelling exercise. While

alternatives to the CGE approach may have their merits, none has yet proven to be sufficiently reliable for an ex-ante analysis of the economy-wide effects of trade policy changes.

3.2. Impacts on EU Member States

Recommendation 1 of the SIA indicates that the Commission should seek to negotiate an ambitious TTIP agreement that covers both tariffs and non-tariff barriers, in order to achieve the maximum potential benefits for EU Member States and the EU as a whole. The Commission **accepts** this recommendation. The Commission was directed by all EU Member States in 2013 to negotiate a comprehensive and high-standard TTIP agreement covering both tariffs and non-tariff barriers. Such an agreement would create growth and jobs by delivering better access to the US market, achieving greater regulatory compatibility between the EU and US, and paving the way for setting global standards, including in the field of sustainable development. The goal is to eliminate as far as possible all duties and other restrictions for trade in goods, with special treatment for the most sensitive products. Freeing up trade in services and increasing EU access to US public procurement markets are also key objectives. Removing unnecessary regulatory constraints is a priority, while ensuring the EU can maintain and improve its high standards in all areas including consumer protection, food safety and product safety. During the negotiations to date, regular consultation with Member States, both at government level and with representatives of parliaments, industry and civil society, has ensured that the Commission continues to follow a path based on the best interests of all Member States.

Recommendations 2 and 5 of the SIA indicates that the Commission should also take into account the specific situations of the Outermost Regions[3] (ORs) and Overseas Countries and Territories (OCTs) during the negotiations. The Commission **accepts** these recommendations, noting the need for more detailed information on the potential impacts on the ORs and OCTs. The Commission welcomes further engagement with the authorities of the ORs and OCTs and their respective Member States to assist negotiators in ensuring that their interests are properly considered in a timely manner.

3.3. Sectors

Recommendation 3 of the SIA indicates that the Commission should monitor the situation of the electronic engineering sub-sector after TTIP enters into force. The Commission **accepts** this recommendation. The Commission's proposals on Technical Barriers to Trade (TBT) and engineering make clear that the EU aims to reduce unnecessary obstacles to trade, for

[3] As referred to in Article 349 TFEU.

example by ensuring the acceptance of international (multilateral) standards in the US, removing duplicative testing requirements, as well as eliminating tariffs. Industry representatives support these objectives and believe that TTIP will bring benefits to the sector, a fact picked up in the SIA. The Commission's regular engagement with the industry and monitoring of the sector should effectively pick up any changes that may be linked to TTIP.

Regarding detailed sectoral impacts discussed in Chapters 7-13 of the SIA, please see sections below.

3.4. Developing countries

Recommendation 4 of the SIA indicates that the Commission should consult third countries regarding their interests in TTIP, and seek to take these into account in the negotiations. The Commission **accepts** this recommendation. The report emphasises that the precise impacts on developing countries depend on the nature of their trade with the EU and US and the end results of the TTIP negotiations. The Commission is aware that particular sectors, such as textiles, agricultural products and processed foods, may be more sensitive for LDCs. The Commission therefore values input from developing countries about different national situations, and during its regular contacts seeks to address specific concerns raised about ongoing EU negotiations including TTIP.

3.5. SMEs

Recommendation 6 of the SIA indicates that the Commission should continue to pursue its proposal for an SME chapter in TTIP that ensures better access to information for SMEs about transatlantic trade. It also suggests that the Commission start as soon as possible to implement the plans for a website and the SME Committee. The Commission **accepts** this recommendation, though noting that at present the TTIP negotiations are on hold. The speed of implementation for the website will depend also on the US, since they are the key source of necessary information for EU SMEs seeking to export to the US.

3.6. Turkey

While TTIP is likely to lead to a significant increase of Turkey's imports from the US (23.7%), in fact the overall indications of the SIA for Turkey are moderately positive, even in the absence of a US-Turkey free trade agreement. Turkey's GDP would see an increase of 0.1%, as would household income and wages for both high and lower-skilled workers.

It would evidently be beneficial for Turkey to negotiate its own free trade agreement with the US or negotiate joining TTIP once concluded. The Commission has been very supportive of Turkey's request to negotiate an FTA with the US and has conveyed this point several times to the US government.

3.7. Consumer prices

The analysis indicates consumer prices (section 4.2.2) in the EU could rise by 0.3% as a result of TTIP. At the same time, real household income will increase, even when the potential price rise is taken into account. This means that all income groups will see benefits from TTIP.

Recommendation 7 of the SIA indicates that the Commission should aim to increase as much as possible the choice and variety of goods available to consumers via TTIP, for example by seeking maximum tariff liberalisation. The Commission **partially accepts** this recommendation. While certainly it is the Commission's objective to remove substantially all tariffs on transatlantic trade through TTIP, it is important to bear in mind certain very sensitive EU sectors – for example within the agricultural and processed agricultural sector – where the Commission seeks to provide alternative treatment to full tariff elimination, such as tariff rate quotas, in accordance with the negotiating directives from Member States. The Commission will consider the effects on both consumers (including where possible differences by type of household) and producers when looking at tariff liberalisation, and seek to find the best outcome for both. Consumers will see additional benefits from TTIP, as well as the wider choice of goods and services mentioned in the SIA, and the reduction in tariffs on goods imported from the US. Moreover, TTIP will ensure the EU's high standards of consumer protection, food safety and product safety are maintained and improved in the future, including via regulatory cooperation with the US should regulators and lawmakers consider this to be appropriate. Consumer groups will play a role in monitoring TTIP's success in this regard via the EU's proposal for a Civil Society Forum which will examine progress on the whole agreement.

3.8. Public health

The consultants have examined three aspects of TTIP related to public health in two case studies (4.3.1 and 4.4.2).

The first of these deals with the effects of liberalising trade – through cutting tariffs and NTBs – on certain commodities (alcohol, tobacco, sugar) and on pharmaceuticals and medical devices. The Commission understands the interest among stakeholders to investigate whether or not removing tariffs on certain products may have adverse effects on public health. However, feedback received by the consultant and by the Commission during the development of this case study makes clear that the issue is more complex than it looks. For example, sugar and sugar products come in a wide variety of forms with different trade patterns, price elasticities and impacts on health. Additionally, any potential health effects of the products concerned depend on the level of individual consumption, which the study does not measure. There are no tariffs already on trade in spirits between the EU and the US. Trade in cigarettes across the Atlantic is very low. The consultants also note that there are many other factors which may affect prices for the products concerned, not least domestic regulatory measures such as excise taxes.

From the Commission's perspective, trade agreements are neutral tools which do not differentiate between "healthy" or "unhealthy" products in terms of tariffs. Whether or not a trade deal increases trade and therefore the availability of a product to consumers, governments can still take action to safeguard public health. TTIP does not affect EU Member States' right to regulate, especially in the field of public health.

The Commission therefore **takes note** of Recommendation 8 that it should monitor changes in price levels of the commodities concerned after TTIP's entry into force, but believes that this is not feasible in practice. The question of how far tariffs affect prices has not been properly settled by the SIA, let alone the effects on public health. To monitor price levels would require a clear assessment of which products to examine ("sugar" for example being potentially a very wide category) as well as other factors that may affect prices that have nothing to do with TTIP. Furthermore, there are many other food and drink products which may affect public health, both positively and negatively, which have not been taken into account in the case study. It seems therefore very difficult to establish a reliable link between TTIP's implementation, changes in prices and public health. The Commission notes that Member States have a range of regulatory policies already in place to safeguard public health, which will not be affected by TTIP, such as laws on plain packaging, excise taxes and controls on the distribution of alcohol.

Turning to the case study's treatment of pharmaceuticals and medical devices, the Commission broadly agrees with the analysis that removal of NTBs such as duplicate inspections through TTIP will lead to benefits for manufacturers which may be passed on to the healthcare sector and patients. The Commission **accepts** Recommendation 9 to seek to reduce regulatory barriers to trade in these sectors. The EU's proposals for annexes on pharmaceuticals and medical devices set out the objectives in these areas, including mutual recognition of factory inspections, greater cooperation in multilateral regulatory fora, as well as commitments to ensure standards of protection for public health remain high.

The other case study dealing with public health examines TTIP's potential impact on public health services. The Commission agrees with the SIA's conclusion that TTIP fully protects these services, and that the reformed approach to investment protection and the Investment Court System substantially removes any risk of "regulatory chill". The Commission **accepts** Recommendation 11 to negotiate the same protections for public health services in TTIP as it already has in the GATS framework. This is already set out in the EU's proposals for a services text and offer, which are accompanied by a reading guide explaining how public health services – among others – are protected.

3.9. Labour standards

Though the study confirms that it is unlikely TTIP would have any effect on the US positions regarding ILO Fundamental Labour Conventions, it also acknowledges that in practice the commitments that the EU seeks to include in the Sustainable Development chapter are comparable to the standards of the ILO's conventions and indeed also set high standards in other areas. These will be binding on the US and the EU, and will also serve as models for negotiations with other countries as well as in the multilateral system. In this way TTIP will support stronger labour standards globally as well as in the transatlantic marketplace.

Recommendation 10 of the SIA indicates that the Commission should pursue its current proposal for a Sustainable Development chapter in TTIP. The Commission **accepts** this recommendation. The EU's proposal for a Sustainable Development chapter includes the most ambitious provisions ever in EU or US trade agreements, including on joint cooperation on labour and environmental issues regarding third countries. It also commits the EU and US to maintaining current high standards in these areas, and continuing to improve them in the future.

3.10. Human rights

Recommendation 12 of the SIA indicates that the Commission should negotiate an ambitious TTIP agreement in order to make sure that all income groups will see benefits and therefore an improvement to living standards, as the analysis shows. The Commission **accepts** this recommendation, for the same reasons as set out under section 3.2 of this paper.

Recommendation 13 of the SIA notes the benefits of the Commission's approach to transparency in the TTIP negotiations, and recommends that this should continue. The Commission **accepts** this recommendation. As set out in the strategy "Trade for All" in 2015, the Commission is committed to increasing transparency for all its trade negotiations, and will continue to ensure that its practices for TTIP set a good example.

3.11. Environmental impacts

The Commission **accepts** Recommendation 14 of the SIA that the impact of TTIP on emissions in reality should be monitored. A commitment to monitor environmental impacts is included in the EU's proposal for a sustainable development chapter. It would have been helpful if the SIA had also discussed ways in which this monitoring might be structured to be able to directly link increases or decreases in emissions with trade activity as a result of TTIP. Regarding Recommendation 15, this indicates that the SIA's prediction of a slight increase in energy demand would already be mitigated by the EU's commitments under the Paris Agreement. The Commission **accepts** this and believes that the same is likely to be true for emissions, at least as far as the EU is concerned.

3.12. Investment protection and the Investment Court System

Section 5.4.2 of the SIA deals with investment protection and the Commission's reforms, including the Investment Court System. The Commission finds this part of the SIA somewhat weak on the basis of its reliance on outdated sources that do not take into account the EU's reformed proposals of 2015 (such as a magazine article from "The Nation", 2001) and of its internal contradictions. The consultant notes that the right to regulate is explicitly protected in the EU's reformed proposal, and indicates that the "regulatory chill" effect cannot be empirically proven, yet concludes that it may still be a potential problem. This contradicts other parts of the report and recommendations (e.g. case study on public health services).

The Commission believes that the safeguards to the right to regulate introduced in the EU's reformed proposal are sufficient to avoid any "regulatory chill" effect. Some stakeholders have raised concerns over future interpretations by the investment dispute resolution tribunal, perhaps in the face of abusive or far-fetched claims. To deal with this, the Commission has ensured clear and precise drafting of the substantial obligations, and introduced a specific article on the right to regulate to guide the interpretation of tribunals. The EU proposal also includes several procedural innovations such as provisions for the early dismissal of abusive claims, the loser-pays principle, an appeal mechanism, and the possibility for the EU and US to adopt binding interpretations of the investment provisions. This has also been acknowledged in academic literature (see e.g. Catharine Titi, "The European Union's Proposal for an International Investment Court: Significance, Innovations and Challenges Ahead", TDM, 2015).

The Commission **takes note** of Recommendation 16 to develop further explanatory material about the investment protection and Investment Court System proposals. Any dispute is likely to turn on the specific facts and applicable legal provisions, so in the Commission's view, any "mock cases" drafted in a non-technical manner are unlikely to be accurate or helpful.

Extensive information is already available on the Commission's website, notably a reading guide to the TTIP proposal which is designed to be accessible for a non-expert audience, as the SIA suggests. Further information is also available related to the investment provisions in CETA, which are virtually identical to the TTIP proposal. The Commission will continue to develop further explanatory material where it judges this to be necessary.

3.13. Trade in natural resources

The case study on illegal trade in fish, timber and wildlife (Section 5.4.3) concludes that the provisions in the TTIP chapter on sustainable development would have a significant positive impact. This would largely be as a result of more coordinated EU-US action to tackle illegal trade in third countries. The SIA notes that TTIP could in particular contribute to curbing illegal fishing.

The Commission **accepts** Recommendation 17 to negotiate binding and enforceable provisions to reduce illegal trade in natural resources and confirms its intention to do so in accordance with its public negotiating proposal on sustainable development. Regarding the institutional set-up and dispute settlement provisions for this chapter, the Commission notes that it has not yet put forward a proposal. The general institutional provisions relating to the whole TTIP agreement already indicate that the domestic advisory group, which should include environmental stakeholders, will play a role in monitoring issues under the sustainable development chapter.

Regarding trade in unconventional fossil fuels, the case study (Section 5.4.4) concludes that TTIP will facilitate exports of US natural gas to the EU, subject to developments in global oil and gas prices. This may help to diversify the EU's energy mix. From an environmental perspective the SIA notes that this may be beneficial, if the energy source replaced by the gas is more polluting (e.g. coal). However, it also depends on the source of the US gas (which may be shale). Recommendation 18 indicates that the Commission should seek further insights on the precise environmental effects of shale gas, and should only import US natural gas in order to diversify supply and lower gas prices. It also suggests that the Commission should tax the reduction in price and use this funding for longer term emissions reductions programmes. The Commission **takes note** of this recommendation, but is not competent either to direct what sources of energy the EU may import nor to set taxes: a feasibility assessment as prescribed by the SIA Handbook would have allowed to ascertain competence in this context. As regards the environmental effects of shale gas, the Commission is undertaking work to assess the potential for unconventional fossil fuels within the EU and development of the associated technologies, including impacts on the environment and climate.

3.14. Energy efficiency

The final case study in the SIA (Section 5.5.1) examines the potential for TTIP's regulatory cooperation provisions to help achieve more coherent approaches in the EU and US to energy efficiency regulation, for example on labelling. The SIA concludes that reductions in the costs of conformity assessment via mutual recognition are likely to provide the most significant benefits, but exchanges of information and the use of international (multilateral) standards would also have positive effects. The Commission **accepts** Recommendation 19 to ensure that any cooperation measure upholds EU standards and leaves scope to improve them in the future. This is already a fundamental principle of the EU's trade negotiations, and is clearly reflected in several places in the EU's proposals, notably in the regulatory cooperation and good regulatory practices proposals.

3.15. Sector chapters

Agri-food

The Commission finds this part of the SIA somewhat weak. It consists mainly of a descriptive, statistical-based overview of the EU agri-food sector as a whole and a repetition of the overall modelling results presented in the general part, complemented by some qualitative comments and references to other research work. An in-depth analysis based on case studies for a number of agricultural subsectors and an elaboration on a number of issues under TTIP which are difficult to capture by the aggregated modelling analysis, such as the importance of SPS barriers, the potential value of protection for Geographical Indications and specific opportunities and sensitivities in the negotiations with the US, could have provided more added value as regards the assessment of detailed impacts of TTIP.

The Commission **accepts** Recommendation 20 with regards to ensuring a good dialogue with the agri-food sector to identify the NTBs that inhibit EU exports to the US, and similarly an open and transparent interchange with consumer organisations. These dialogues have been active from the early stages of consultation on EU priorities for a potential trade negotiation with the US, and have continued throughout the TTIP negotiations to date through a variety of fora.

Chemicals and pharmaceuticals

The Commission **accepts** Recommendation 21 to avoid negotiating anything in TTIP which would require alteration to REACH in the EU. This is already the EU's approach, as set out clearly in the EU's position papers and text proposal. Upholding EU standards such as those set out in REACH and ensuring they can be improved in the future is a fundamental principle of the negotiations.

The Commission **accepts** Recommendation 22 to continue its efforts to reduce NTBs affecting trade in pharmaceuticals. In fact, there has been an early success here: the EU and US have finalised negotiations to amend the Annex on Good Manufacturing Practices (GMPs) of the Agreement on mutual recognition of conformity assessment procedures[4] (the "1998 Agreement") previously concluded between the EU and the US. The updated Annex is expected to enter into force in 2017.

The Commission **accepts** Recommendation 23 to consult with health groups and the pharmaceutical industry to make sure standards are not lowered, noting once more that upholding EU standards and ensuring they can be improved in the future is a fundamental principle of the negotiations. These consultations are already taking place in a variety of fora, including the TTIP Advisory Group, bilateral meetings, and taking part in public events such as the European Public Health Alliance (EPHA) 2014 Conference.

The Commission **accepts** Recommendation 24 regarding sharing of test results of chemicals that involve testing on animals, which is part of its negotiating proposal to increase cooperation between regulatory authorities. However, the reference to cosmetics is misplaced as cosmetics are not part of the chemicals sector.

The Commission **accepts** Recommendation 25 to ensure that regulatory cooperation does not lower standards, noting once more that upholding EU standards and ensuring they can be improved in the future is a fundamental principle of the negotiations.

The Commission **takes note** of Recommendation 26 regarding the explanatory material that is available about the TTIP chemicals proposal. It is the Commission's view that this material is sufficiently clear to be understood by the stakeholders involved in the topic. A factsheet, a detailed position paper, an outline of the EU's proposal and a set of examples are all available in addition to the proposal itself. The Commission does not envisage producing any new material on this topic for the time being.

[4] Agreement on mutual recognition between the European Community and the United States of America, Official Journal of 04.02.1999, L31/3

Mechanical engineering
Electrical and electronic equipment

The Commission **accepts** Recommendations 27 and 29 to ensure good dialogues with the mechanical engineering and electrical and electronic equipment industries to identify the most significant NTBs affecting trade with the US. This dialogue has been active from the early stages of consultation on EU priorities for a potential trade negotiation with the US, and has continued throughout the TTIP negotiations to date through a variety of fora.

The Commission **partially accepts** Recommendations 28 and 30 that removal of NTBs in these sectors must be reciprocal, and that gaining better access to the US public procurement market is very important. Certainly the value of access to the US public procurement market is very high for these sectors, as well as for others. However, there is no detail in the SIA about what is meant by reciprocal removal of NTBs. The Commission notes that US manufacturers face considerably fewer NTBs to access in the EU market than EU manufacturers do in the US. The EU conformity assessment system for mechanical engineering is largely based on self-declaration of conformity, while in the US third party certification applies. The very significant difficulties faced by EU exporters to the US in these sectors should be tackled in TTIP as outlined in the EU's proposals on Technical Barriers to Trade and Engineering.

Motor vehicles

The Commission **accepts** Recommendations 31 and 32 to continue negotiating for an ambitious outcome on motor vehicles that covers both tariffs and NTBs, in particular regulatory cooperation. The EU's proposal for an annex on motor vehicles includes commitments on equivalence of certain US and EU safety regulations for motor vehicles, and cooperation in the 1998 UNECE Agreement allowing for effective implementation of Global Technical Regulations, thus increasing regulatory convergence over time. Moreover, the EU proposal includes the possibility in certain cases of bilateral harmonisation of regulations, paving the way towards international harmonisation, as well as cooperation on research.

The Commission **takes note** of Recommendation 33 that future cooperation with the US on alignment of vehicles emissions standards would be potentially beneficial for consumers and the environment. EU vehicle emission standards provide for a high level of health and environmental protection. Cooperation with the US might for instance entail the joint development of new and enhanced testing protocols and verification methods. If this were to happen, as previously noted, upholding EU environmental standards and ensuring they could be improved in the future would be a fundamental principle. At present, it is too early to say whether cooperation in this area is likely to be feasible.

The Commission **takes note** of Recommendation 34 that mutual recognition of product standards in the automotive sector should be extended to third countries to facilitate developing countries' participation in value chains in this sector. The Commission would like to note that the multilateral UNECE 1958 Agreement continues to be the main instrument for the harmonisation of technical regulations at international level, which facilitates developing countries' participation in the automotive value chains not only in the EU but in a wide variety of countries (the contracting Parties of the 1958 Agreement). In addition, the 1958 Agreement provides for the mutual recognition of approvals granted by the Contracting Parties. The EU's proposal aims to identify functional equivalence of certain EU and US technical regulations. There is also the possibility to achieve bilateral harmonisation of existing technical regulations where both sides agree this is appropriate, in order to pave the way towards multilateral harmonisation under the UNECE 1998 Agreement. Such equivalence or harmonisation would apply to vehicles originating in the EU or US, which frequently contain components sourced from third countries. TTIP would not create any barriers to the participation of developing country manufacturers in these supply chains. Moreover, improved cooperation on new Global Technical Regulations (UNECE 1998 Agreement) at the multilateral level in Geneva, including effective implementation of such regulations, would further increase regulatory convergence not just between the EU and the US, but also with other countries.

Maritime and air transport

The Commission **accepts** Recommendation 35 to continue negotiating for an ambitious outcome for the maritime and air transport sectors, including by reducing NTBs inhibiting trade in these sectors and by reducing tariffs on goods in general. The Commission's objective is to reduce tariffs on nearly all goods, negotiating longer phase-out periods in some more sensitive sectors. Liberalisation would be limited only in the most sensitive sectors. Regarding NTBs, as Recommendation 36 points out, the Jones Act represents a significant block to EU exports in the maritime sector. The Commission **accepts** the recommendation to seek to negotiate targeted exceptions to the Jones Act for the benefit of EU maritime transport and shipbuilding companies. This objective is already reflected in the EU's factsheet on the services negotiations, and has been publicly acknowledged by Commissioner Malmström.[5]

Financial and insurance services

The Commission **takes note** of Recommendation 37 that the financial services cooperation envisaged by the EU under TTIP should not overshadow the EU's efforts to regulate and

[5] For example in a speech to the Flemish Parliament in January 2016.

supervise the financial sector. The EU's policies in the areas of trade and financial services regulation are carefully coordinated and there is no intention that work to improve trade with third countries should interfere in any way with the EU's right to regulate the financial sector as it sees fit.

The Commission **takes note** of Recommendation 38 regarding the potential impacts of bilateral regulatory cooperation between the EU and US on third countries, in particular least-developed countries (LDCs). The Commission is ready to provide technical assistance if it is required, but notes that the participation of LDCs in global financial markets is already very limited and assistance to comply with possible higher international standards in this sector developed via EU-US cooperation may not be a high priority for such countries.

The Commission **accepts** Recommendation 39 to consider important aspects of other parts of the TTIP negotiations which may affect or be affected by the EU's proposal on financial services cooperation. This is already part of the Commission's approach, which takes full account of the interactions between different parts of the negotiation towards the common goal of increased cooperation and maximising benefits from trade for EU citizens and companies.

4. Conclusion

Negotiations for TTIP started in 2013, and are currently on hold following the change of US Administration.

This SIA nevertheless provides a useful assessment of TTIP's potential to deliver benefits to EU citizens. While some relative weaknesses were identified in the analysis, the Commission did not consider these reason enough to reject the independent report as a whole. Further qualitative work to draw out in detail the specific opportunities and sensitivities of the negotiation would have helped to make up for these weaknesses. The Commission has noted the findings and recommendations of the SIA, and is ready to take most of these into account as described in this paper.

The SIA has highlighted the interconnected nature of the economic, social and environmental impacts that TTIP might have. The process of consultation and review of the SIA has helped to ensure that a wide range of stakeholders are aware of the potential impacts of TTIP and have shared their perspectives with the consultants and the Commission.

Since TTIP negotiations are on hold, it is impossible to answer those issues that depend on the precise outcome of the negotiations and on other external factors that an ex-ante assessment cannot fully analyse. To deal with these, as for other trade agreements, the Commission would carry out ex-post evaluations some years after the conclusion of negotiations, after enough time has passed to gather sufficient evidence, in order to understand whether the agreement has achieved its objectives as well as to assess the longer-term effects.