Potential Effects of the Proposed Transatlantic Trade and Investment Partnershipon Selected Developing Countries

A report by CARIS, University of Sussex for the Department for International Development

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Part 1. Executive Summary

This paper evaluates some of the potential effects of EU-US TTIP economic integration on the trade in goods of 43 low-income countries (LIC) listed in Table 1. It first assesses the impact of removing the most-favoured nation (MFN) tariffs that apply to trade between the EU and the US.[1] It then examines the impact of regulatory integration on sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT) on LIC. These tariff and non-tariff barrier (NTB) assessments reached similar conclusions, as follows:

The Big Picture

The EU and US are typically in the top ten export destinations of the 43 LIC examined in this study. For the top three exporters of non-fuel goods (**Bangladesh, Pakistan and Cambodia**), the EU and US are among the top three destinations for their exports.

The EU is almost twice as large a market for these 43 LIC as the US. The EU's MFN tariffs for the products the 43 LIC specialise in are typically lower than 12%, while the US MFN tariff for the same goods are often above 15% and even 20%.

Tariffs

A transatlantic agreement carries potential threats for LIC in some sectors. The reciprocal removal of MFN tariffs in transatlantic trade could entail LIC lose market share to the TTIP partners as a result of the fall in tariffs and other barriers. The higher the initial MFN tariff, the larger the potential loss in preference margin for goods LIC specialise in producing.

At risk here are **Bangladesh, Pakistan** and **Cambodia** - the largest LIC traders in non-oil goods. They specialise in **textiles, clothing and footwear,** which dominate their top 20 exports to the EU and US. However, the EU and US show no indication of being competitive suppliers of these products in each other's markets.[2]Nor do they look capable of imposing large losses in market share on LIC exporters of non-fuel goods after a TTIP.

The smaller LIC traders tend to specialise in raw materials and in products governed by SPS rules. MFN tariffs tend to be low or zero in these sectors. Low tariffs mean less risk of trade diversion and hence losses to third countries.

Fourteen of these countries are dependent on products regulated by SPS regimes. The following countries have ten or more of their top 20 exports subject to SPS regimes: **Ghana,**

[1] One based on close analysis of current trade performance and the use of diagnostic measures calculated using TradeSift software and the second on partial equilibrium (PE) modelling. The report focuses on the MFN tariffs currently applied in EU-US bilateral trade because that is what will change in any TTIP. More importantly, the size of the MFN tariff will measure the increase in price competitiveness each of the EU and US will gain in the other's market. The higher the MFN tariff applied to products in which LIC are currently competitive the larger the fall in the preference margins and competitiveness of LIC and hence potentially market share.
[2] As assessed by measures of export similarity, competiveness or import share.

Kenya, Nigeria, Burkina Faso, Burundi, DR Congo, Malawi, Nigeria, Occupied Palestine Territories, Rwanda, Sierra Leone, Togo, and Uganda. These countries are potentially vulnerable if greater regulatory cooperation under the TTIP results in more restrictive SPS standards.

SPS and TBT

In general, the ambitions for transatlantic regulatory integration set out in the HLWG report (Annex 1) are quite modest.

The SPS analysis reveals that while some countries are dealing poorly with current SPS regulations on certain products, such as fisheries, others have high levels of compliance. Closer transatlantic integration, whether by harmonisation or mutual recognition, would likely result in cost savings due to a rationalisation of EU and US rules for those countries with success in compliance. If the EU and US move towards mutual recognition route, its importance is not exclusive to EU and US firms. Third country products meeting the rules of one partner will also meet the rules of the other.

On TBT, the main issue to affect LIC is the harmonisation of both labelling rules and the regulatory treatment of azo dyes in textiles and clothing. The process of harmonising these standards is underway but the launch of TTIP could accelerate progress. If implemented, these measures are likely to reduce the costs of doing business after some initial costs of adjustment.

Policy implications

There are limited policy options open to LIC and other developing countries that fear damage to their trade access to EU and US markets as a result of a TTIP. They are not at the negotiating table. They can lobby for *ex ante* changes in preferences to compensate for any perceived losses. *Ex post* they can bring cases to the WTO dispute settlement mechanism (DSM) to demand compensation. The former is clearly more attractive than the latter.

Individual LIC options depend on the country's current status and existing policy with both the EU and the US. First, the EU's Everything But Arms (EBA) scheme means that many LIC already enjoy duty and quota free access to the EU. Second, within WTO rules it is difficult for the EU to offer increased preferences beyond what is on offer in the GSP and GSP+ schemes for non-LIC.

The US has not signed up for duty free/quota free access for LIC although many LIC do receive preferences in the US market. This offers the US more room to grant compensation to LIC for the reduction in preference margins. Bangladesh, Pakistan and Cambodia currently receive no preferences on the US's top 20 imports from them, so these products incur the MFN tariff. The US could give these three largest exporters preferences that abolish or reduce the tariff in bilateral trade. More radically, it could reduce or even abolish the MFN tariff thus leaving them in the same situation as before the TTIP, which was facing the same tariff as EU firms.

Why would the US take either of these options? Perhaps as a way of signalling to the other WTO Members that it is conscious of the systemic implications of the TTIP and is acting to protect the most vulnerable. It would also have the effect of reducing the any trade diversion losses to the US economy.

Although unlikely, individual LIC might argue for some or all of the high MFN tariff lines that cover their specialist products to be excluded from liberalisation under the TTIP. This would have the advantage of satisfying domestic lobbies in the EU and US, as well as sustaining the current preference margins enjoyed by the LIC. Such an approach would need to comply with the WTO rules on regional trading arrangements (RTA). These require that "substantially all trade" is covered by any agreement. Although there is no consensus on the interpretation of this rule, any substantial carve-out for LIC would limit the freedom of the US and EU negotiators to maintain protection for their domestic list of sensitive products.

In the regulatory field there may be more opportunity for lobbying. If the EU and US succeed in pursuing effective mutual recognition agreements (MRA), LIC could lobby for these MRAs to be open to third countries meeting the rules of either the EU or US. In this context, where rules are being harmonised and changed for at least some producers, an LIC might look for aid to ensure that their testing and certification facilities were capable of meeting the new rules. More importantly perhaps, aid to help firms reach these standards via training or perhaps loans for capital investment would be a useful flanking measure to help LIC adjust to a changed regulatory environment.

Finally, the LIC are not standing still. Their economies and trade are growing and their specialisations are shifting. While the TTIP negotiations get started, the LIC should continue to encourage greater competitiveness and flexibility in their domestic economies to be able to cope with changes in external circumstances. They could also consider focusing more energy into progressing multilateral negotiations at the WTO. These may bring more long run greater benefits thanlobbying for preferences or compensation linked to the TTIP.