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The TTIP One Year On and the Czech Position:
Measuring Benefits and Identifying Threats

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Kryštof Kruliš
Alice Rezková

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Ministry of Foreign Affairs
of the Czech Republic

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Executive Summary

The TTIP talks were launched in July 2013 with great fanfare, and with a promise that, this time, the negotiations would not drone on endlessly as some other trade talks have. TTIP created much excitement among trade representatives as a new opportunity for success and economic growth in challenging economic times. Nevertheless, the seventh trade round of talks took place in September 2014 after over a year of negotiations, and the officials feel that reality has set in.

Both the EU and the US are currently losing the public debate over TTIP, but they must win the hearts and minds of their citizens in order to successfully complete the agreement. Any deal will have to be ratified both by the US Senate and the European Parliament, as well as by the parliaments of the 28 EU member states. Ratification may prove problematic in some states that are fighting unemployment and are trying to protect their fragile economies. In October 2014, the EU and the US announced a public mandate for TTIP negotiations. This is definitely the step into the right direction. The benefits of TTIP might seem very diffuse to public, while the costs of TTIP appear immediate. It is therefore crucial to include much wider public consultations on various levels in order to assure acceptance of TTIP by all member states.

Many observers and governmental officials advocate an all-encompassing agreement that would cover as many issues as possible. However, there are various issues that hinder the negotiations. Geographical indications (GIs) consist one of the issues and raise serious political concerns since TTIP must be ratified by all 28 EU member states; the GIs might lead to deadlock in certain countries. Thus it is questionable whether TTIP should include GIs, because the most important ones in terms of the sales volume are already protected by the US trademark system. The others have been issues in the common trade talks for many years and it is not very probable that they can be solved within TTIP negotiations.

Then the investor-state dispute settlement (ISDS) has also become a frustration for negotiators. It is too early to determine whether the ISDS could lead to a deadlock in the TTIP negotiations, but it must be regarded as a possibility. It should not be allowed to divert the parties from the core goals of TTIP. The overall deal can generate the expected benefits even without the ISDS mechanism.

In the past, trade talks were more about reducing tariff barriers on goods, and by how much. Now, however, trade negotiations are more focused on the elimination of non-trade barriers. This involves highly technical negotiations aimed at securing mutual recognition of standards across a very long list of manufacturing and services industries. Such regulatory compatibility is crucial particularly for smaller European and US businesses that cannot



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afford additional investments to comply with different standards. Both the EU and the US want the other party to consider its own regulatory system as the more suitable one. To avoid an impasse, the parties should define specific sectors of mutual interest, and work on joint solutions rather than trying to build a “one size fits all” model.

Most of the studies on the TTIP impact include at least two scenarios: (1) a conservative scenario, usually assuming the elimination of tariffs between the EU and the US, but only limited elimination of the non-tariff barriers; and (2) a comprehensive scenario which assumes more ambitious results in elimination of the non-tariff barriers.

The Felbermayr, Heid & Lehwand (2013) study’s estimate for the Czech Republic in its conservative scenario of “full tariff elimination” the following: an increase of 0.17 % in the real per capita income; and of 0.11 % in employment, and 0.53 % in real wages. With these results, the Czech Republic is always among the 8 EU countries that benefit least from TTIP, but still not far below the GDP-weighted average.

The estimated results by Felbermayr, Heid & Lehwand (2013) under their comprehensive “deep liberalization” scenario for the Czech Republic are: an increase of 2.58 % in real per capita income; an increase of 0.46 % in employment, and 2.14 % in real wages. Although the results are in absolute terms better for the Czech Republic than under the previous conservative scenario, the ranking position of the Czech Republic is worse than in the conservative scenario. In terms of the its real per capita income increase, the Czech Republic’s gain of (+2.58 %) lags the whole EU with the only exception of Luxembourg which takes the last position. The benefits of TTIP thus would not help in the convergence of Czech per capita GDP or real wages with the EU average

In order to adapt the Czech business environment to the new situation and gain more from the TTIP the relevant strategies should include preservation of the position of Czech companies in the cross-border production networks that lead to export of final products to the US and further development of links with companies from the EU countries that should profit the most from the TTIP (the UK and Ireland in particular). The smoothly functioning of EU internal market may be another key strategy that may help to increase the benefits and outweigh the negative aspects of the TTIP for the Czech Republic.



1. The TTIP Negotiations in Progress

The TTIP talks were launched in July 2013 with great fanfare, and with a promise that, this time, the negotiations would not drone on endlessly as some other trade talks have. TTIP created much excitement among trade representatives as a new opportunity for success and economic growth in challenging economic times. At the very beginning many observers felt that TTIP would be accepted more readily by domestic political actors on both sides thanks to the common EU and US ground on many issues. Some government officials even projected that the talks could be concluded by the end of 2014.¹ Nevertheless, the seventh trade round of talks took place in September 2014 after over a year of negotiations, and the officials feel that reality has set in. Now it is more than obvious that TTIP will not be completed on “one tank of gas”.² However, everyone recognises that it is highly desirable for both the EU and the US to finish the talks by the end of 2015 before the US election campaign begins, otherwise the negotiations could drag on until 2020.

Even at the very beginning, it was clear that EU-US trade relations are more complex than the cheerleaders’ initially believed. There are various issues that hinder the negotiations, and usually only the less important ones are heavily publicized in the press. Very early on, optimism was dampened by the revelations of the NSA’s surveillance programme, which undermined US efforts to address EU data privacy protection. The debate on stronger protection of geographical indications also reached a dead end, and the Investor-state dispute settlement (ISDS) mechanism was postponed after the Commission received 150 000 comments through the public consultation process.³ Finally, the expected liberalization of US financial markets is very probably not going to happen.

Many observers and governmental officials advocate an all-encompassing agreement that would cover as many issues as possible.⁴ However, some of the issues mentioned above might be more easily resolved by excluding them from the TTIP negotiations, thereby allowing more time to work out an acceptable solution for both sides. It is definitely the highest time to recognise the issues that are holding the negotiations back, and decide whether these issues should, in fact, be included in TTIP.

This paper explores the TTIP from two perspectives. The first perspective is focused on what should be done to conclude the negotiations soon in order to complete the most ambitious free trade agreement in history. The question asked is what should be the key elements of successful strategy for TTIP in 2015? The second perspective examines the results

¹ Emmott (2013).

² The Office of the United States Trade Representative (2013), February 2013.

³ The European Commission (2014), Preliminary report.

⁴ BusinessEurope (2014).



of several studies on TTIP, and focuses on the estimated impact of TTIP on the Czech Republic.

In essence, what can be done in order to increase TTIP benefits, and minimize any negative effects that may occur once TTIP comes into force? Besides this the another perspective that could be found in the annex of this paper offers a short insight into what Czech businesses think about TTIP using data from a survey conducted by AMO in October 2014.

2. The TTIP Negotiations One Year On: Challenges Ahead

▪ Win the Public Debate

Both the EU and the US are currently losing the public debate over TTIP, but they must win the hearts and minds of their citizens in order to successfully complete the agreement. Any deal will have to be ratified both by the US Senate and the European Parliament, as well as by the parliaments of the 28 EU member states. Ratification may prove problematic in some states that are fighting unemployment and are trying to protect their fragile economies. It is very difficult to win the argument only by geopolitical reasoning in favour of more economic openness and global competition. There is currently very limited discussion in most of the EU countries, and the debate is very often controlled by media that cherry-pick the most controversial TTIP elements, e.g. chlorinated chicken and hormone treated beef that could flood Europe. Moreover most of the small and middle-sized businesses are not motivated to support TTIP, even though it might significantly benefit their organizations. This apparent lack of interest is also obvious by the very low participation rates in the survey initiated by the European Commission.⁵ Most of the communication right now is orchestrated by the European Commission. However, member states should engage more with stakeholders at various levels, because the Commission's participative processes can be very remote from the businesses and citizens most likely to be affected by TTIP.

▪ Create Transparent Environment

In October 2014, the EU and the US announced a public mandate for TTIP negotiations. This is definitely the step into the right direction, despite the fact that it happened after the EU ombudsman opened two investigations into the EU Council and the Commission over the alleged non-transparency of the TTIP talks. The accusations of text leakages to business

⁵ See Annex.



stakeholders and of documents kept secret did not help to build positive public attitudes towards TTIP. Public interest groups have criticized EU trade policy processes for lack of transparency for many years, and it is a pity that more lessons were not learned from previous controversies. Both the EU and US should create a system that encourages a broad spectrum of stakeholders to take part at consultations of free trade agreements. For example the Commission's questionnaire⁶ aimed at businesses was not well publicized, and also offered little opportunity for participation by non-business stakeholders. Moreover, it is surprising that in the age of new media, the public consultations do not include social media features. Consequently, TTIP opponents are more visible than TTIP proponents. The benefits of TTIP might seem very diffuse to public, while the costs of TTIP appear immediate. It is therefore crucial to include much wider public consultations on various levels in order to assure acceptance of TTIP by all member states.

▪ Exclude Geographical Indications from TTIP

Geographical indications (GIs)⁷ raise emotions among EU member states, as they are considered a valuable form of the European intellectual property. As of 2010, 867 agricultural and foodstuff GIs, 1564 wines GIs and 337 spirits have been registered in the EU. More than 80 % of GIs were registered in 6 member states: Italy, France, Spain, Greece, Portugal and Germany.⁸ It was estimated that, in 2010, sales of GI products to third countries were 11.5 billion EUR, representing 15 % of all extra-EU trade for food and beverages. Nearly half of those exports of GI products were wines (51 %), the value of GI spirits exports amounted to 40 %, and agricultural and food stuffs represented 9 % of the EU's GI exports.⁹

According to the Commission, the US was the largest market for the EU's GI products, and those products comprised 30 % of all US imports of food and beverages from the EU.¹⁰ A small number of products (champagne and cognac from France, Scotch whisky from the United Kingdom and parmesan cheese from Italy) account for most of the EU's GI exports to the US. All these products are already protected under the WTO Agreement TRIPS, although the level of protection is lower than in the EU. Therefore the main export articles already have assured protection via the US trademark system, which recognises names like Roquefort or Cognac as certified trademarks. The main difficulty lies in the GIs

⁶ The European Commission (2014), SME Survey.

⁷ GIs are defined in the WTO as "indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin". The EU recognises two types of GIs – Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI).

⁸ The European Commission (2012), p. 3.

⁹ Ibid.

¹⁰ Ibid.



that are considered generic in the US simply because many European immigrants brought these product names to the US, and now they are already well established on the US market, for example feta cheese.

It might seem that an acceptable solution should be attainable since both the EU and the US accept the principle of GIs protection. If the EU compromise on the scope of the GIs list that should be protected, and the US accept it, this FTA chapter could be completed. Useful examples of such compromises are provided by the EU-South Korea and EU-Canada FTA. In the case of the EU-Korea FTA, both parties agreed on a list of each other's most important GIs in the form of an Annex to the main agreement.¹¹ However, there is no embedded protection of all GIs on the EU GIs database. There are compounded names on the list like Parmigiana Reggiano and single names are mostly cheeses, such as Fontina or Feta cheese. The Czech Republic has secured extra GI protection for the following: České pivo, Budějovické pivo, Budějovický měšťanský var, Českobudějovické pivo and Žatecký chmel. The EU-Canada FTA¹² presents a slightly different situation. Canada recognises many EU wines and spirits GIs, but there is a whole list of terms that are allowed to be used freely in the Canadian market, although there are some limitations regarding Feta cheese. And most importantly, Canada does not protect Budějovické pivo because of the longstanding presence of the Budweiser trademark.

Potential GI controversies raise serious political concerns since TTIP must be ratified by all 28 EU member states; the GIs might lead to deadlock in certain countries, and TTIP might become a scapegoat for some populist governments. Thus it is questionable whether TTIP should include GIs, because the most important ones in terms of the sales volume are already protected by the US trademark system. The others have been issues in the common trade talks for many years and it is not very probable that they can be solved within TTIP negotiations.

▪ **Make a Decision on the Regulatory Model of Non-tariff Barriers**

In the past, trade talks were more about reducing tariff barriers on goods, and by how much. Now, however, trade negotiations are more focused on the elimination of non-trade barriers. This involves highly technical negotiations aimed at securing mutual recognition of standards across a very long list of manufacturing and services industries. Such regulatory compatibility is crucial particularly for smaller European and US businesses that cannot afford additional investments to comply with different standards.

¹¹ Official Journal of the European Union, L 127.

¹² The European Commission (2014), Consolidated CETA Text, 26 September 2014.



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The first fully negotiated new generation FTA is the one between the EU and South Korea. This agreement contains both horizontal chapter on technical barriers to trade (TBT) and sectoral non-tariff provisions related to TBT. According to Kommerskollegium, the agreement recognises European regulations and standards that conform to South Korean safety levels.¹³ In case of Singapore the EU also effectively exported its own regulatory instruments, and the partner countries adopted new measures in compliance with the EU regulations and standards.

Such approaches, however, are not likely to succeed in the case of TTIP. Both countries already have very high standards in health and safety, environment and consumer protection. Thus, it becomes a question of choosing the right model for better coordination of these issues to prevent duplication of procedures and extra costs. There have been various attempts to come up with a right scenario that would utilise one regulatory equation to solve the entire transatlantic regulatory landscape – in effect, a model of technical harmonisation similar to that within the EU. Both the EU and the US want the other party to consider its own regulatory system as the more suitable one. To avoid an impasse, the parties should define specific sectors of mutual interest, and work on joint solutions rather than trying to build a “one size fits all” model.

The US emphasizes the principles of transparency (adequate advance notice of specific regulatory measures), participation (opportunities for input from a broad range of stakeholders) and accountability (responses to that input).¹⁴ The US is particularly critical of the EU system of issuing general papers for comments without enabling comments on the text of the regulation. The EU would, on the other hand, prefer to reconcile the present and future regulatory differences in the most important industrial sectors. So far, eight sectors have been identified as particularly important for regulatory cooperation: automotive, pharmaceuticals, chemicals, textiles, medical devices, ICT and cosmetics.¹⁵ It is reasonable to define achievable goals within these sectors. If properly done, both approaches could be accommodated without overly interfering with domestic systems. There is also no need to invent the wheel, as there are already quite successful working models that can be adopted, for example the US-Canada Regulatory Cooperation Council. Both sides need such a forum in which regulators could meet and discuss ways to overcome differences in current and future regulations.

¹³ Kommerskollegium, (2014), p. 13.

¹⁴ Office of the United States Trade Representative (2013), September 2013.

¹⁵ The European Commission (2014), March 2014.



▪ **Be Ready to Give up on the Investor-State Dispute Settlement**

The investor-state dispute settlement (ISDS) has become the greatest frustration for negotiators. It is an instrument of public international law that grants foreign investors the right to initiate a dispute settlement against a foreign country. The debate over this mechanism is so polarised in the EU that the Commission decided to postpone negotiations in this chapter after receiving 150 000 public comments within public consultations on that issue.¹⁶ The goal of the Commission is to come up with a modernised mechanism that could be implemented in future agreements.

ISDS is not a novel system, and there are many agreements all over the world that include this mechanism as a means of protecting investments from unexpected public rulings. There is also an increasing utilisation of ISDS internationally, and, according to UNCTAD, European investors are involved in half of these cases.¹⁷ Even within the EU, there are still many anachronistic bilateral investment agreements that include the ISDS, and were signed between the old and new member states in pre-accession times. Up to 2012 the Czech Republic had already paid 840 million EUR to investors, and it is also the most sued country under this mechanism.¹⁸

The growing number of ISDS cases even concerns the Commission itself, causing it to admit that the ISDS mechanism is flawed. In reality, many companies have exploited loopholes in ISDS. Most often cited is the notorious case brought by Philip Morris against Australia over its plain-packaging laws for tobacco products.¹⁹ However, many of these cases have not been decided yet, and therefore their final impact on public regulations is unclear. Still, the Commission has declared its willingness to terminate intra-EU bilateral investment treaties, on the grounds that they are discriminatory and clash with single market rules. However, many countries including The Netherlands, United Kingdom and Germany are opposed to the termination of these agreements.²⁰

In the TTIP negotiations, the EU has insisted on retaining the ISDS mechanism, even though the EU is divided on the issue. Some of the member states wish to include the mechanism, but the Council has signalled opposition.²¹ Thus, excluding ISDS would be a way to make TTIP more acceptable to the European Parliament and some member states. On the other hand, TTIP could be a key legal safeguard in future trade agreements, particularly with

¹⁶ The European Commission (2014), Preliminary report.

¹⁷ Pardo (2014), p. 1.

¹⁸ Ibid., p. 2.

¹⁹ Donnan (2014).

²⁰ Pardo (2014), p. 2.

²¹ Oliver & Spiegel (2014).



emerging economies. It is too early to determine whether the ISDS could lead to a deadlock in the TTIP negotiations, but it must be regarded as a possibility. It should not be allowed to divert the parties from the core goals of TTIP, which should be about eliminating tariff and non-tariff barriers, liberalising services, and opening procurement markets. The overall deal can generate the expected benefits even without the ISDS mechanism.

3. The TTIP and the Czech Position: How to Enhance the Gains from TTIP?

Moving our attention from the TTIP negotiation process to the impact of TTIP on individual states, this chapter examines various impact studies on the TTIP from the perspective of the Czech Republic, and suggests possible strategies that may be employed to enhance TTIP benefits for the Czech Republic as well as minimise any negative effects of TTIP.

In recent years, several studies have been conducted that assess the impact of TTIP on individual member states of the EU. These include Francois & Pindyuk (2011) on Austria, Kinnman & Hagberg (2012) on Sweden, Ecorys (2012) on The Netherlands, and Fontagne & Gourdon (2013) on France.²² The TTIP's impact on the EU as a whole is examined in the Centre for Economic Policy Research's study by Francois J. et al. (2013). The Bertelsmann Stiftung study by Felbermayr, Heid & Lehwald (2013) has a similar scope but uses a different methodology. Felbermayr, Heid & Lehwald (2013) also estimate TTIP's impact on individual member states of the EU. Most of these studies include at least two scenarios: (1) a conservative scenario, usually assuming the elimination of tariffs between the EU and the US, but only limited elimination of the non-tariff barriers; and (2) a comprehensive scenario which assumes more ambitious results in elimination of the non-tariff barriers. As between the two detailed studies of TTIP impact on the EU as a whole, the European Commission considers the Francois J. et al. (2013) study to be at the mid-range of most other studies on this topic, while the study by Felbermayr, Heid & Lehwald (2013) foresees more positive impacts for both the US and the EU.²³ The following text analyses the findings of these studies concerning the impact of TTIP on the Czech Republic, and the role that the EU's internal market can play.

²² For a study providing basic and very conservative estimates based on the computable general equilibrium (CGE) model for the Czech republic see Semerák (2013), p. 13.

²³ The European Commission (2013), p. 3.

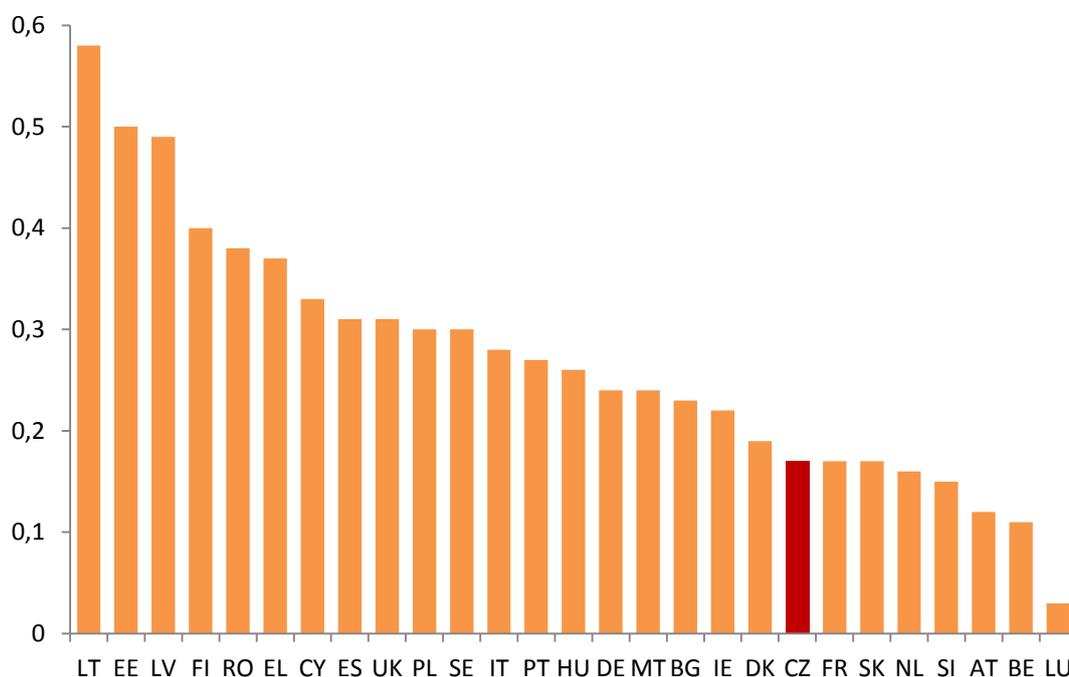


3.1 How the Czech Republic Stands in Comparison to the Others?

According to Semerák (2013), **the very conservative scenario (which only reflects the elimination of visible tariff protection)** indicates only limited effects: a 0.01 % increase in the Czech Republic's GDP, and a 0.06 % increase in its merchandise exports.²⁴

The Felbermayr, Heid & Lehwand (2013) study's estimate for the Czech Republic in **its conservative scenario of "full tariff elimination"** indicates the following: an increase of 0.17 % in the real per capita income; and of 0.11 % in employment, and 0.53 % in real wages.²⁵ In terms of real per capita income gains, the result for the Czech Republic is the same as for Slovakia and France, slightly higher than for Austria (+0.12 %),²⁶ but lower than Germany (+0,27 %), Poland (+0,30 %) and the UK (0,31 %).²⁷

Figure 1: Real per capita income increases in EU-27: "full tariff elimination" scenario



Source: Felbermayr, Heid & Lehwand (2013)

²⁴ Semerák (2013), p. 13.

²⁵ Felbermayr, Heid & Lehwand (2013), p. 22 for the real per capita income and p. 36 for employment and real wages.

²⁶ Francois & Pindyuk (2011) in their study of impact of the conservative Transatlantic scenario expect for Austria similarly moderate GDP growth of 0.25 %.

²⁷ Felbermayr, Heid & Lehwand (2013), p. 22. The biggest winners in this scenario would be the Baltic states gaining an increase of the real per capita income of about 0.5 %.



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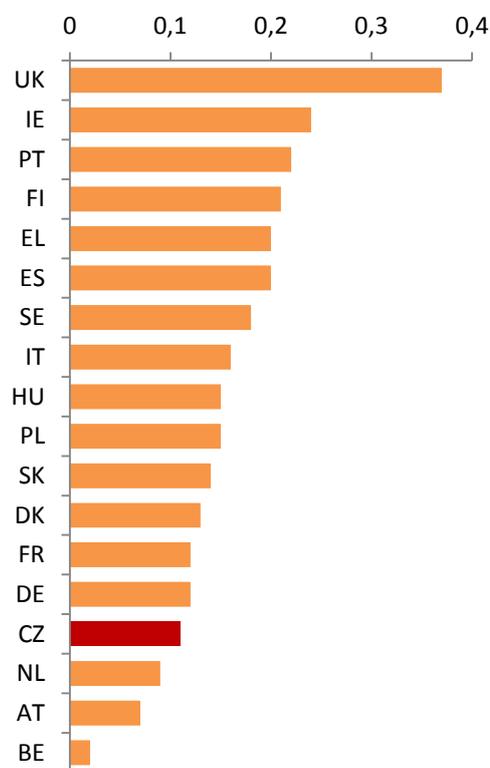
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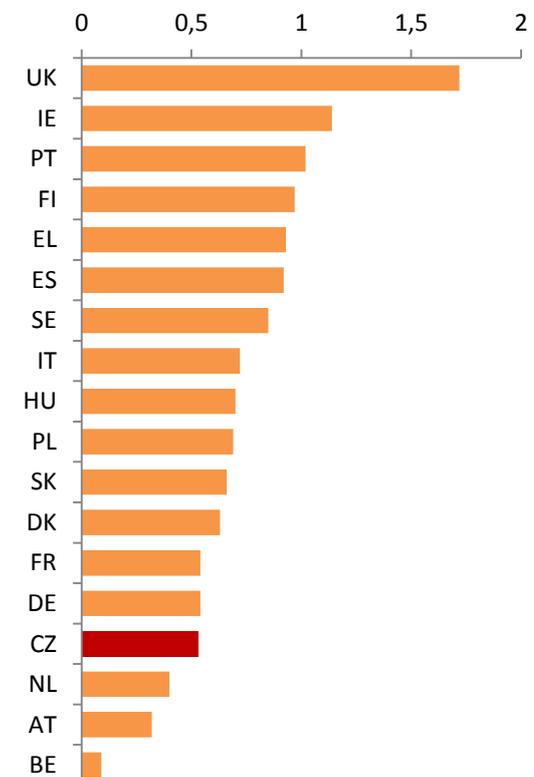
For the Czech Republic, there were similar results in terms of employment and real wages increases under this scenario. The Czech employment increase of 0.11 % is slightly better than Austria's (+0.07 %), more or less the same as those of Germany and France (both +0.12 %). But Ireland (+0.24 %) gains more than twice as much as the Czech Republic, the UK (+0.37 %) increases three times as much. A very similar ranking pattern is evident for real wages. Thus, according to this data by Felbermayr, Heid & Lehwand (2013), TTIP will not have positive real wage convergence effect for the Central and Eastern European (CEE) states. The Czech real wage increase of 0.53 % is again slightly better Austria's (+0.32 %), is more or less similar to Germany and France (both +0.54 %), but much lower than Ireland (+1.14 %) and the UK (+1.72 %). In these rankings, the Czech Republic is always among the eight countries that benefit least from TTIP. However, because the big European economies – France and Germany – show similar results, the Czech Republic's growth numbers are not far below the GDP-weighted average.

**Figure 2+ 3: Employment and real wages increase in the EU-27:
“full tariff elimination” scenario**

Employment



Real wages



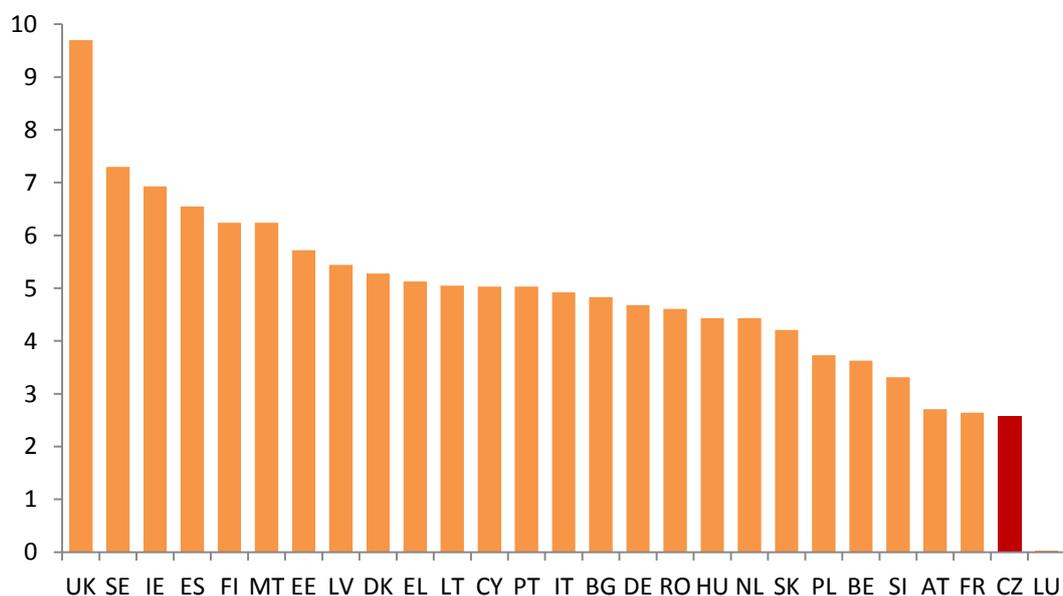
Source: Felbermayr, Heid & Lehwand (2013)



On the other hand, the Czech Republic's relative rankings are worse in **the comprehensive “deep liberalization”** scenario according to Felbermayr, Heid & Lehwand (2013). The results for the Czech Republic are: an increase of 2.58 % in real per capita income; an increase of 0.46 % in employment and 2.14 % in real wages.²⁸

Although the results in absolute terms are better for the Czech Republic than under the previous conservative scenario, the ranking position of the Czech Republic is the lowest in the EU27 (only with the exception of Luxembourg which takes the last position). In terms of its real per capita income increase, the Czech Republic's gain of (+2.58 %) lags the whole EU,²⁹ trailing even Austria (+2.71 %) and France (+2.64 %). Moreover, the Czech gains are only about half of those estimated for Poland (+3.73 %), Slovakia (+4.21 %) and Germany (+4.68 %), about one third of the result for Sweden (+7.30 %), and only one-fourth of the increase estimated for the UK (+9.7 %).³⁰

Figure 4: Real per capita income increases in EU-27: “deep liberalization” scenario



Source: Felbermayr, Heid & Lehwand (2013)

²⁸ Felbermayr, Heid & Lehwand (2013), p. 24 for the real per capita income and p. 39 for employment and real wages.

²⁹ The only exception is the estimate for real per capita income increases Luxembourg which is only 0.03 %.

³⁰ Felbermayr, Heid & Lehwand (2013), p. 24.



The ranking position of the Czech employment (0.46 %) and real wage (+2.14 %) increasing under this scenario is very similar to its ranking position in the above mentioned conservative scenario. Again, these projections indicate that TTIP would not contribute to the convergence of Czech wages to the EU average. However, in terms of employment and real wage increases, the Czech Republic does rank higher than Austria, Belgium or The Netherlands, and is about equal with Germany and France. As in the other forecasts, Ireland's results are more than double, and the UK's (+1.38 % for employment and +6.6 % for real wages) is more than triple the Czech gains.³¹

Although the estimated benefits for the Czech Republic are lower than those projected for most other member states according to Felbermayr, Heid & Lehwand (2013), the Czech Republic should at least experience gains from TTIP under both scenarios. It is, therefore, in a better position than several non-EU states, for which TTIP could cause GDP per capita losses.³² Also, the results under the comprehensive “deep liberalization” scenario, where the Czech Republic shows the lowest GDP per capita increase from all EU member states (with exception of Luxembourg), may be distorted by the methodology used by Felbermayr, Heid & Lehwand (2013) because it ignores various spillover effects.³³ In fact, many Czech companies are suppliers of parts or components to German industry,³⁴ and should benefit from such spillovers. For example, German exports to the US partially consist of production by Czech subcontractors. Thus, the relatively weak results for the Czech Republic under the Felbermayr, Heid & Lehwand (2013) comprehensive “deep liberalization” scenario may be balanced by the fact that Germany maintains a relatively good position (+4.68 % of the real per capita income increase in contrast to Czech +2.58 %). The comprehensive “deep liberalization” scenario may thus bring bigger gains in Czech per capita GDP than forecast by Felbermayr, Heid & Lehwand (2013), despite the fact that the estimated increase in direct Czech exports to the US may remain relatively low.

³¹ Felbermayr, Heid & Lehwand (2013), p. 39.

³² The GDP per capita losers in the tariff scenario include such states as is India (-2.5 %), Russia (-2.1 %) or Argentina (-2.0 %); Ibid., p. 28.

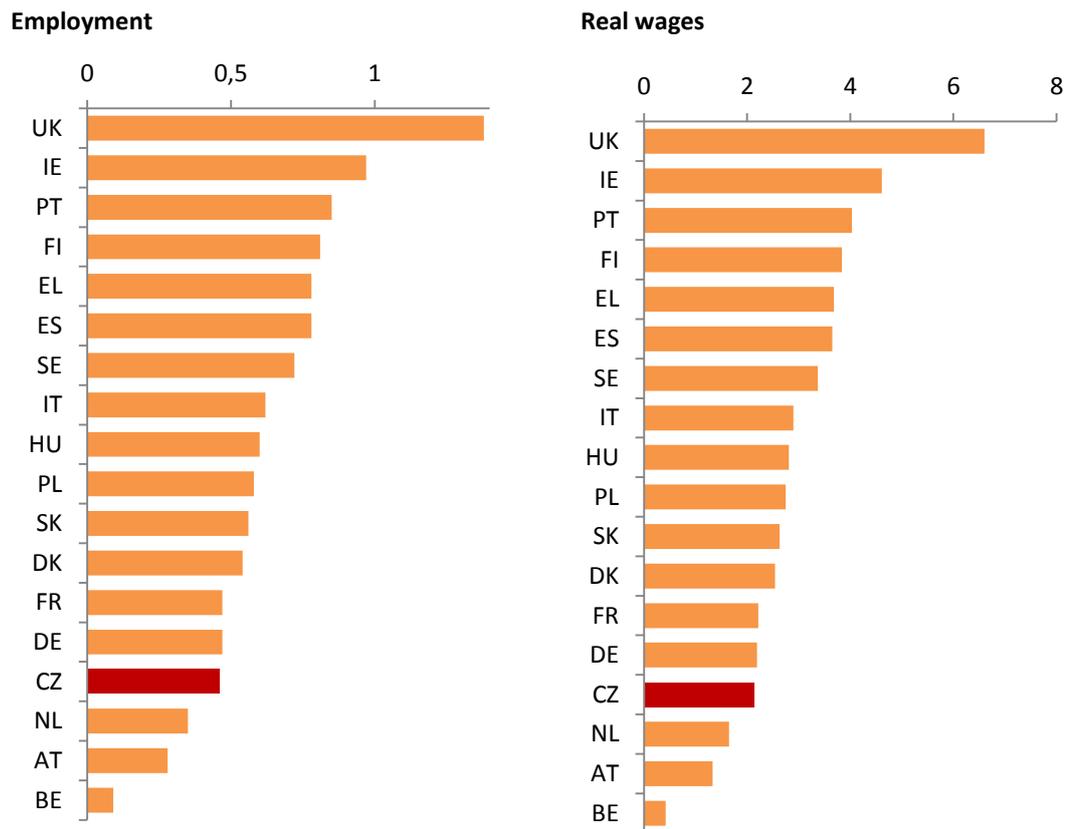
In the comprehensive “deep liberalization” scenario the biggest losses in GDP per capita are estimated for Canada (-9.5 %), Australia (-7.4 %), Mexico (-7.2 %); Ibid., p. 30.

³³ See also The European Commission (2013), p. 2. Further for aspects that may influence the result for specific Czech economy see for instance Semerák (2013), p. 11, 12.

³⁴ For a general overview of a role of production networks in the automotive industry see for instance Blázquez L., Díaz-Mora C., Gandoy R. (2013). Production Networks in the Enlarged European Union: Is There Room for Everyone in the Automotive Industry? *Eastern European Economics*, Vol. 51, No. 3, May-June 2013. Similar argumentation in regards of the role of Czech subsidiaries of German parent companies also in Semerák (2013), p. 12.



**Figure 5+ 6: Employment and real wages increase in the EU-27:
“deep liberalization” scenario**



Source: Felbermayr, Heid & Lehwand (2013)

3.2 Three Strategies that Can Enhance the Gains of the Czech Republic

The following three strategies are recommended to enhance the gains of the Czech Republic from the TTIP:

- **Enhancing Indirect Exports**

As mentioned in the previous analysis, Czech companies participating in Central European supply chains with final products exported to the US as “German” may play an essential role in bringing TTIP benefits to the Czech economy. For this purpose it is essential that the existing production networks connecting Czech companies with German producers are maintained and even further developed. Further infrastructure improvements



(e.g. improvements of railway and highway connections to Germany) and various institutional actions to facilitate the operation of such production networks (e.g. further deepening of the functioning of the internal market or adoption of EURO) could help to bring more actual benefits of TTIP to the Czech Republic.

▪ **Enhancing Direct Exports**

The second strategy is to directly encourage and promote direct exports by Czech companies to the US. Given the high degree of technological development of the US, it will be necessary to identify export priorities, and focus on niche segments where the concentration of available resources could stimulate technological developments that would provide a competitive edge.

▪ **Joint-ventures Strategy**

A third strategy would entail joining forces with foreign companies that could provide improved access to the US market. Enterprises from the UK and Ireland are probably the most desirable partners for this purpose. The UK and Ireland show exceptional results under both TTIP scenarios in the Felbermayr, Heid & Lehwand (2013) study. Both countries are also natural gateways between the EU and the US due to their historic links to the US in the areas of language, common law legal system and other general cultural features.³⁵ Czech companies should consider finding partners in the UK or in Ireland to form a production networks or joint ventures for expansion to the US. To this end, Czech businesses can take advantage of the increased interest by the British Chamber of Commerce in strengthening of business and trade relations between the Czech Republic and the UK (manifested in the recent opening of the British Business Centre in Prague).

3.3 The TTIP from Perspective of Individual Sectors

The potentially uneven distribution of benefits among the individual member states of the EU is not the only variation that could result from the TTIP. Similar variations may also occur among different industrial sectors or services.

Aggarwal & Fogarty (2005) identified sectors in the EU such as *financial services*, *environmental technologies* and *knowledge based industries* as sufficiently competitive in international markets, and thus should be supportive of trade liberalization.³⁶ In contrast,

³⁵ For more information see also Kruliš (2013).

³⁶ Aggarwal & Fogarty (2005), p. 335.



sectors such as *textiles*, *steel* and *agriculture*, are comprised of firms that are more sceptical toward open trade with North America.³⁷

Francois J. et al. (2013) found that the sector of *electrical machinery* would be under the heaviest transformation pressure both in the EU and the US, with negative impacts on employment on both sides.³⁸ Similarly, heavy transformation pressure would affect the sector of *other transport equipment* (i.e. not cars) in the EU, while in the US the *motor vehicles* sector could come under pressure.³⁹

Francois & Pindyuk (2011) also identified EU sectors that could be damaged by foreign competition, including *chemicals*, *electrical machinery*, *other transport equipment* and *agricultural products* while those sectors most likely to benefit would include *motor vehicles*, *water transport*, *finance*, *insurance*, *business* and *other services*.⁴⁰

The pressures on different sectors also vary under different scenarios of TTIP impacts. For example, Francois J. et al. (2013) show that under the purely tariff reduction scenario, TTIP could negatively affect the output of the *motor vehicles* sector in the EU (not surprising, given that the current tariffs applied by the EU in this sector are almost eight times higher than those in the US), however, when the scenario includes a reduction in the existing non-tariff barriers (NTBs), the output of the *motor vehicles* sector in the EU rises by 0.24 % in the less ambitious NTBs reduction scenario, and by 1.54 % in the ambitious scenario.⁴¹

Based on the results of the Francois J. et al. (2013) study, the European Commission decided that the uneven impact of the TTIP on the output and employment in different sectors would be manageable (less than 0.7 % of the labour force is expected to move between sectors over ten years as a result of the TTIP while the natural annual adjustments of the labour force between sectors in the EU is actually 3.7 %).⁴² Still, the European Commission (2013) stressed that “the EU and national governments will need to be prepared support people who need to move between sectors”⁴³ as a result of TTIP.

In short, TTIP could have differential impacts as between member states of the EU as well as between economic sectors, and these could result in problems that might require deeper structural changes in the EU. In order to distribute the benefits of the TTIP among the EU member states, and also alleviate its negative impacts on less competitive economy sectors, it

³⁷ Aggarwal & Fogarty (2005), p. 336.

³⁸ Francois J. et al. (2013) p. 60, 72.

³⁹ The European Commission (2013), p. 7.

⁴⁰ Francois & Pindyuk (2011) p. 14.

⁴¹ Francois J. et al. (2013) p. 14, 61.

⁴² The European Commission (2013), p. 8.

⁴³ Ibid.



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is highly desirable to maintain and even further develop the functioning of the EU internal market. At the same time, the EU must uphold all of its four freedoms (both from a regulatory and practical perspective) when TTIP rules govern transatlantic trade and the exchange of investments. The following issues should be taken into consideration:

- a) In accordance with a suggestion in the Mission letter by Jean-Claude Juncker to the new Commissioner for Internal Market, Industry, Entrepreneurship and SMEs, Elżbieta Bieńkowska, extension of the principle of mutual recognition (country of origin principle) to other areas such as the free movement of services and labour mobility should be closely examined and put into practice.⁴⁴
- b) All attempts to undermine the current level of functioning of the four freedoms of the internal market of the EU should be strongly resisted. Although TTIP may bring several times larger benefits in terms of increased employment and real wages to some EU member states compared to the rest of the EU, this should not serve as an excuse for the less fortunate EU member states to block TTIP. At the same time no member state of the EU should be allowed to exploit such uneven distribution of TTIP benefits - for example, by seeking to close its domestic labour market to workers from the other EU member states.
- c) The transition periods kept by several EU member states for the free movement of workers after accession of Croatia in 2013 should be reviewed in consideration to possible impact of the TTIP on Croatia.

⁴⁴ Juncker (2014), p. 4.



Conclusion

If concluded and ratified, the TTIP would change the business environment on both sides of the Atlantic. If the EU and the US are able to agree not only on the abolition of the remaining tariffs, but also on substantial elimination of NTBs, the impact of the TTIP on the economy will be particularly strong.

The Czech Republic should profit based on both conservative and comprehensive scenarios of possible outcomes of the TTIP negotiations. However, as the comparison of benefits for individual member states of the EU estimated by Felbermayr, Heid & Lehwand (2013) shows, the Czech Republic would benefit less than most of the other EU member states. The results indicated by Felbermayr, Heid & Lehwand (2013) for the Czech Republic also suggest that the benefits of the TTIP would not help in the convergence of Czech per capita GDP or real wages with the EU average.

The Czech Republic can react in two main ways: first, to attempt to shape the negotiations to better reflect Czech interests. Due to various stronger players at the table of the TTIP negotiations, this may be very difficult to accomplish. The second way is to adapt the Czech business environment to the new situation in order to gain more from the TTIP. This may include preservation of the position of Czech companies in the current production networks that lead to export of final products to the US, and further development of links with companies from the EU countries that should profit the most from the TTIP (the UK and Ireland in particular). Finally, preservation of a smoothly functioning EU internal market may be another key strategy that may help to increase the benefits and outweigh the negative aspects of the TTIP for the Czech Republic.



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Abbreviations

Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)

Central and Eastern Europe (CEE)

Computable General Equilibrium (CGE)

EU-Canada Comprehensive Trade and Economic Agreement (CETA)

Geographical Indications (GIs)

Gross Domestic Product (GDP)

Investor-State Dispute Settlement (ISDS)

Non-Tariff Barriers (NTBs)

Technical Barriers to Trade (TBT)

Transatlantic Trade and Investment Partnership (TTIP)



Annex

What Czech Businesses Think about TTIP?

Public consultations within the TTIP negotiations could significantly contribute to its successful completion. There are various tools that can be implemented in order to engage various stakeholders, ranging from online forums to knowledge task forces. For the purpose of this study, a questionnaire survey was conducted. Its objective was to learn more about the views of Czech businesses on the TTIP issues, and also to increase the awareness of TTIP matters among business stakeholders, as well as highlight their importance in the whole process of TTIP negotiations. Even though the results are not representative, the process of getting business representatives accustomed to, and interested in, participation in the creation of trade policy is an important step forward for future trade talks.

In total, 495 firms from the Czech Republic were asked to fill in the questionnaire. The database of firms was developed by AMO based on recommendations from the Ministry of Industry and Trade of the Czech Republic and other partners, and represented a diverse group of firms involved in business in the Czech Republic (i.e. not only firms currently exporting to the US). Several partners, including the American Chamber of Commerce in the Czech Republic, the Chamber of Commerce of the Czech Republic and the Confederation of Industry of the Czech Republic invited their respective members to fill in the questionnaire. Despite these efforts, the final respondents represented only 1.7 % of the firms to which the questionnaire had been sent.

Due to the low number of actual responses, the results of the survey are not representative, and should not be interpreted as such. Nevertheless, several basic tendencies and implications can be drawn with the use of the survey.

Character of the firms that answered the questionnaire

- 1) All firms that answered declared their belief that the TTIP will be either beneficial or mostly beneficial to their businesses. This indicates the clear pro-TTIP orientation of the firms that were willing to complete the questionnaire.
- 2) The answers came from a mix of firms, of which about one third were small firms (10–50 employees; turnover less than 2 million EUR in 2013) and two thirds were large firms (more than 500 employees; turnover more than 10 million EUR in 2013).
- 3) The dominant sector of the responding firms was engineering, followed by financial services.



Support for various aspects of the TTIP

- 4) All main elements of the TTIP were supported. Relative to “*Abolition of custom duties between the EU and the US*” the declaration of full support was unanimous.
- 5) Also “*Harmonization of regulations between the EU and the US*” gained almost full support.
- 6) Of the remaining aspects, “*Mutual protection of investments*” and “*Mutual access to public procurement markets*” received high support.

The TTIP and business

- 7) Slightly more than half of the firms (60 %) indicated that their production destined to the US market is more costly (due to different regulatory requirements that are applicable to their goods or services in the US) compared to production destined for markets within the EU. The rest (40 %) indicated that their production for the US market is not more costly in comparison to markets within the EU.
- 8) A strong majority of firms (80 %) indicated that the different legal system in the US (including the possibility to award punitive damages against them) represented a barrier to their business in the US.

The TTIP and the EU internal market

- 9) The firms were more optimistic than pessimistic that the benefits of the TTIP can be equally distributed across the member states of the EU due to the development of the EU’s internal market.
- 10) The level of optimism is slightly lower concerning the capacity of the internal market of the EU to offset any negative TTIP effects. It was mentioned that the free movement of workers between the EU member states could reduce adverse changes arising from the TTIP.

Appraisal of public consultations

- 11) None of the firms indicated that they knew about the questionnaire addressed to SMEs (<http://ec.europa.eu/yourvoice/ipm/forms/dispatch>). This fact seems quite alarming given that one third of the firms that responded in our survey fitted into that category. Moreover their participation in our survey showed that they were among the more active firms in regards to TTIP.
- 12) All the firms were quite negative in their appraisals of the European Commission in its public consultations, and were even more negative in terms of how the Czech authorities had consulting them, and taken their positions into account in the TTIP negotiations.



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ASSOCIATION FOR INTERNATIONAL AFFAIRS (AMO)

Association for International Affairs (AMO) is a preeminent independent think-tank in the Czech Republic in the field of foreign policy. Since 1997, the mission of AMO has been to contribute to a deeper understanding of international affairs through a broad range of educational and research activities. Today, AMO represents a unique and transparent platform in which academics, business people, policy makers, diplomats, the media and NGO's can interact in an open and impartial environment.

In order to achieve its goals AMO strives to:

- formulate and publish briefings, research and policy papers;
- arrange international conferences, expert seminars, roundtables, public debates;
- organize educational projects;
- present critical assessment and comments on current events for local and international press;
- create vital conditions for growth of a new expert generation;
- support the interest in international relations among broad public;
- cooperate with like-minded local and international institutions.

RESEARCH CENTER

Founded in October 2003, the AMO's Research Center has been dedicated to pursuing research and raising public awareness of international affairs, security and foreign policy. The Research Center strives to identify and analyze issues crucial to Czech foreign policy and the country's position in the world. To this end, the Research Center produces independent analyses; encourages expert and public debate on international affairs; and suggests solutions to tackle problems in today's world. The Center's activities can be divided into two main areas: first, it undertakes [research and analysis](#) of foreign policy issues and comments on [AMO blog](#); and second, it fosters dialogue with the policy-makers, expert community, and broad public.

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KONRAD-ADENAUER-STIFTUNG, OFFICE IN THE CZECH REPUBLIC

The main principles of the Konrad-Adenauer-Stiftung (KAS) are freedom, justice and solidarity. The KAS is a German political foundation, which is closely associated with the Christian-Democratic Union (CDU). The aim and commitment of the foundation is to preserve the intellectual heritage of the first German chancellor Konrad Adenauer, which is mainly characterised by the democratic reconstruction of Germany, the vision of a united Europe, an orientation towards the social market economy, and the firm alignment of foreign policy with the Transatlantic system of values. An important part of the legacy of Konrad Adenauer is also the emphasis on Christian-democratic values both in politics and in society. Therefore, the foundation strives for such social conditions, that guarantee inalienable dignity to every individual, as well as the liberties, rights and duties given by the constitution. The individual is the starting point of social justice, free democratic law and sustainable economic growth.

The KAS is not only active in Germany, but all around the world. There are two main offices in Germany, in Berlin and St. Augustin. Furthermore, the foundation is represented in Germany by sixteen regional educational institutes and two educational centers. Beside these, the foundation has more than 80 offices abroad, which organize projects in more than 120 countries worldwide. The office in Prague was opened in 1991 and in cooperation with significant representatives of the Czech state administration, politics, universities and civil society; it organizes about 150 projects every year.

The focus of the Czech office lays on the development and maintenance of a free and democratic society as well as a social and ecological market economy, integrated in the European Common Market. In this context, strengthening the bilateral relations between the Czech Republic and the Federal Republic of Germany, as between partners in unified Europe, is also one of the aims of the KAS. In addition, the foundation endorses integration of the Czech Republic in the EU and strives for an active role of the country in the community of European states. Pluralistic socio-political dialog and civic education are the cornerstones of the projects, organized by the foundation together with its Czech partner organizations. The purpose of this activity is to raise the interest in politics throughout the society, to strengthen the engagement of citizens in the democratic processes and to develop civic competence, which is necessary for such democratic participation. In order to achieve this, the foundation supports conferences, workshops, summer schools, roundtables, lectures etc. Scholarships for university study or internships abroad are also granted by the foundation. These forms of education and publishing activity represent the main activities of the Czech office of the KAS.

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