

### 3 Executive summary (English version)

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Discussions on the Transatlantic Trade and Investment Partnership (TTIP) were launched in 2013 and by February 2016, 12 negotiation rounds had been held. As regards the phases of negotiation, the efforts of calculating the effects of TTIP for the USA, the EU and the Czech Republic or other countries should be considered up to a certain point as approximate and not necessarily accurate. Therefore, this study, which has been conducted in order to assess the potential benefits and threats of the agreement of TTIP for the Czech Republic, should be viewed as an initial point for understanding a broad view of the TTIP agenda before the final text will be concluded. In addition, it should be treated as a source of information for further debate and as input for formulating opinions based on data.

For many reasons, TTIP represents an initiative of a unique approach. Given the wide range it covers, it could hardly be compared with any other negotiated treaties. The goal of the agreement is the liberalisation of trade between the two most developed blocks in the global economy, which are already well-interconnected by a solid volume of mutual investment and trade ties. Despite the fact that duties between the EU and the USA still exist, in most areas of industries they have reached a low level and the effort to decrease them further remains the main goal of interested parties. TTIP's crucial potential is based on searching for mutual agreement on elimination of non-tariff (other than tariff) barriers to trade. Effects of removing non-tariff barriers cannot be simply calculated, thus it is hard to estimate the amount of cost savings. Because of the previously mentioned issues, it is not always possible to assess the contribution of FTAs - particularly when discussing the case of developed economies such as the EU and the USA, where the removal of this type of barrier could greatly contribute to the enhancement of a friendlier environment for trade, services and investment within the transatlantic space. Transatlantic trade might be easier to be joined by more subjects in a more intensive way than it would be if non-tariff barriers would persist. The positive effect of liberalisation of bilateral trade should be evident to enterprises which have already been active in EU-US trade, although easier access to the market could create opportunities for many others. With this assumption, the effects of some of the benefits of free trade might be fully traceable after a certain longer period of time.

TTIP would be classified as an **external agreement of the EU**, which is a part of EU law and it would be an international agreement which is under the rules of international public law. In light of the WTO, TTIP might only be accepted if it does not prevent other member countries from exchanging trade with the USA and the EU. If TTIP includes issues not be covered exclusively by European legal jurisdiction (so far the most probable choice), it will be characterised as a *joint agreement*, which has to be approved not only by the EU, but also by each EU member state. TTIP, as an internal treaty, would become an integral part of EU law. This means it would be obligatory for all of the European institutions and member states. After approving TTIP, it would be necessary to unify all secondary legal rules with TTIP conditions.

From the perspective of **geopolitics**, the successful negotiation of TTIP would be a potential boost to the strengthening of the transatlantic partnership and consequently, it would strengthen global security and the nature of relations in the transatlantic area. The current

negotiations contribute to governments' understanding of institutional structures on both sides of the Atlantic, which may lead to more complex dialogue in the future.

TTIP could be considered as the first step in the creation of basic standards, which both the EU and the USA would be able to assert as the basis of a global concept of free trade, which is constituted on mutually agreed rules. This would be a way of preventing protectionist multipolarity in the rest of the world. Enhancement of mutual trade and investment cooperation would strengthen ties and it would minimize mutual protectionist measures in the future, as their application would demand higher costs. In terms of energy, TTIP might contribute to the process of diversification of the most crucial energy sources and create more suppliers for European markets from the USA. Closer partnership would in the mid to long-term period strengthen energy security, particularly for European countries including the Czech Republic. It would significantly improve its status in negotiations with suppliers of energy. On the other hand, failing to establish an FTA between the EU and the USA, in the light of the current trend of closing FTAs between single states, would lead to a weakening of transatlantic relations internally and externally. If transatlantic liberalisation is successful, it would decrease (relatively low) negative risks related to the process of penetration of the USA market for countries participating in TTIP. The results of other currently negotiated FTAs do not seem to have a serious impact on TTIP. The agreement resulting from TTIP would probably not result in the success of overcoming the risks following the institutional setting of extraterritorial application of law in the USA (especially international sanctions against third countries), although this approach would remove the current latent trade conflict.

Despite the extraordinary civilisational interdependence of both sides of the Atlantic, differences are based on different law systems and also partially on the socio-cultural environment. The scale of different conditions, in which the rules for various sectors of the economy are made, leads to the creation of two developed **systems of regulatory rules**. However, these two groups are not always compatible with each other. The effort for unification of the different regulatory concepts is a long-term one because, in most cases, their purpose is to defend important public interests and their goals embedded in their rules do not let one side or another accept modifications. In addition to this, the European Commission has declared that the negotiation of TTIP will affect the main elements of regulation in the chemical industry in the EU, e.g. REACH, or in agriculture (rules for GMO products). Apart from different approaches, there are numerous partial rules, which might be kept by both parties on the same level of security. Decreasing of costs for achieving the compliance of products and for achieving higher levels of transparency of current laws would become a benefit not only for big manufacturers, particularly, although it might facilitate expansion and enhance activity of SMEs for those where accomplishment of current standards is too difficult. It might be possible to rely on the embedding of the concept of transatlantic cooperation, which would be particularly in the manner of mutual consulting and considering regulatory activities valuable, because it could decrease potential tensions related to the implementation of surprising conditions of another party without necessarily obtaining a particular solution or without lengthening the legislative process.

The study analyses current conditions of bilateral trade between the Czech Republic and the USA, the level of trade tariff and non-tariff barriers, and level of different standards in certain important sectors such as the car industry, engineering, agriculture and the food industry, information and communications technology and the pharmaceutical industry.

**The car industry** is traditionally an important part of bilateral transatlantic trade. The Czech Republic does not export any cars on the US market directly. However, there are companies in the Czech market which are involved in trade with the USA by manufacturing car components. Overall, the total level of tariff barriers is very low. Most Czech exports face tariffs with a level of 0 to 5 %. On the other hand, American car importers face a much higher level of tariff than European exporters. Based on results of economic simulations, a slight decrease in the amount of exports can be seen. However, these results operate only with the tariff elimination scenario and do not include possible advantages coming from non-tariff barriers elimination. The Czech car industry also participates in Central European supply chains and the strong trade ties with Germany, which has much more intense trade ties with the USA. Therefore, a simultaneous strengthening and balanced development of the Czech car industry might be expected as a consequence of rising volumes of German exports to the USA after TTIP is concluded. In terms of TTIP, the biggest challenge is the convergence of views of different standards in the car industry. That would mean easier trade for the car industry, but even more, it would create a united framework of rules for the whole transatlantic area. Such a framework could become globally respected by many other countries in the future. Czech companies, which not only manufacture products but also develop new products, perceive different standards as highly problematic, even in the initial phase of development. Different American certifications increase costs for manufactures, which have to be taken into account in the phase of development of a new product. Regulatory convergence would therefore bring cost savings in both manufacturing and in R&D. Enhancing cooperation in regulatory issues would create a higher level of regulatory frameworks, which might be the case of the technologies innovation area. Based on the idea of sharing the results of scientific research and experiments, it would enable the passing of laws which would allow manufacturing and utilisation of new technologies to proceed without any other additional costs. If there is no agreement on at least partial convergence of standards, the car industry will have to face many non-tariff barriers together with a combination of duties. The deepening gap between standards might result in a decreasing level of competitiveness compared to other regions of the world.

**Machinery** generates approximately one third of bilateral trade between the EU and the USA. Despite there being such a significant proportion of this sector in EU-US trade, obstacles in trade have both a tariff (more than two thirds of Czech exports are under tariffs between 0-5%) and non-tariff nature. The non-tariff hurdles include different (however very similar) standards which negatively affect transatlantic trade with additional costs on different certifications. In order to export to the US market, European manufacturers have to obtain the certificates for their production twice and vice versa in the case of American exporters. Despite the fact that Czech manufacturing companies are predominantly focused on European markets, many Czech companies are already active in the US market and TTIP would provide them with new opportunities. The econometric simulation suggests that the sector would benefit from tariff removal in many other areas by increasing volumes of exported goods. The American standardisation system is much more fragmented and less coordinated than the one in the EU, which leads to difficulties in implementing the international standardised systems of IEC and ISO. The whole issue of cooperation on an institutional level in the sector is related to the most relevant subjects. Regulation in the US collides with the principles of the EU regulatory framework, which is more open and enhances the importance of participation and implementation of public interests.

**The chemical industry** creates a large number of jobs on both sides of the Atlantic and its production contributes with its inputs to other industries. The majority of European exports are exported with zero duty, 25 % of the total amount of European exports is taxed to the degree of 0 to 10 %. The econometric simulation shows that full trade liberalisation of duties (including the rubber-making and plastic-making industries) would have a positive impact on the industry. Potential growth of Czech exports will be expected in rubber-making and plastic-making industries within car manufacturing components. Despite the different approaches of the EU and the US towards the regulatory framework of the chemical industry (the European regulation called REACH and a law called TSCA in the USA), there are apparently many areas which represent an opportunity for serving common interests without conflicting their own principles. Sharing information about the effects and impacts of chemical substances plays a crucial role for the partnership. It would bring benefits to trade and increase safety for humans and support environmental protection. In the broad perspective, the institutionalisation of consultation processes with the EU members and the public, which could be joined by American institutions (e.g. EPA), could prove valuable. The European Commission declared that the already implemented institutional framework should not decrease the efficiency of the legislation process. In general, representatives of chemical industries are concerned by the potential threat of the decreasing competitiveness of the European chemical industry, followed by the effect of higher prices of materials. Also the industry expects that the process of removing tariff barriers should be followed by at least a settlement about a basic negotiation mechanism by developing regulations in the future.

The EU and the USA are strong global players in the **agricultural and food industry**. Additionally, these sectors are a key priority in the negotiation of TTIP for the USA, although the Czech Republic is a marginal partner for the US in terms of trade in the agriculture and food industry. It is also necessary to mention that the Czech Republic is in general not specialized in exports of agricultural products and commodities.

The TTIP agreement could potentially help Czech companies in the American market and it could be an opportunity for exporting other Czech products onto the US market. Approximately half of the volume of exported agricultural products does not have to face any duty in the USA, although a high duty, from 10 % to 15 %, is imposed on 28% of exported goods. Most of the benefits of the potential elimination of duties could be expected for dairy and animal products. They are areas on which quotas and non-tariff barriers have been heavily imposed. As regards other trade agreements of the EU and of the USA, they both maintain a certain level of protectionist measures in these industries, or apply transitional periods for the removal of duties in combination with protectionist measures.

Most of the exported agricultural goods from the USA to the Czech Republic (e.g. almonds, fish fillets) are not in conflict of competition with produce of the Czech Republic. Thus, the potential removal of duties on these items could be beneficial for Czech consumers without threatening the competitiveness of Czech producers. In terms of agricultural and food production, the creation of mutually accepted standards might be highly problematic, due to the current regulation framework, which is by both entities based on different traditions and rules. As a result of the diversity, there are different ideas and expectations from the governmental institutions which supervise the fulfilment of different standards and rules even though both parties try to achieve the same goals – to minimize the health risk to consumers. Removal of duties without unification of standards would not help enhance the trade cooperation on both sides of the Atlantic. It is expected TTIP would keep a certain level

of protection on sensitive areas and products. Looking at previous attempts for unification of standards, there is evidence that it does not necessarily have to always be about lowering the level of standards to the most possible common degree. The certification of organic food can be used as a good example. The well-established European system helped the US system benefit from its features. If we weigh up the concerns about the compatibility of these approaches, it is necessary to stress the fact that the USA belong to a group of countries where many common principles for consumer security have already been implemented at the same level as in the EU. However, this is not the case of many other non-European countries, which export their products to Europe.

The chapter **on information and communication technologies** in the TTIP agreement does not apply to tariff elimination as in other sectors. Under TTIP, both sides of the Atlantic could try to create a single digital space which will promote innovation, boosting mutual trade and will not jeopardize the rights of users to protect personal data and will ensure the same quality of digital services on both sides of the Atlantic. The Internet environment in the EU is in many ways far more regulated than in the US, “the right to be forgotten” or with the higher level of privacy and restrictions on the use of personal data may be examples of this. Despite the fact that cooperation in the area of convergence of regulatory approaches in the digital world becomes more sensitive, there are many areas where we can find a match, without creating completely unnecessary new rules or, conversely, forfeiting the level of protection established in the EU. Benefits could be expected in consensus on less controversial topics such as electronic labelling of products and the issue of access to ICT for all user groups.

**The pharmaceutical industry** is for the US and the EU a key area of the economy, which in addition to benefits for the quality of human life also helps in developing new technologies and innovations. In the pharmaceutical industry under TTIP, crucial benefits in terms of eliminating customs duties are not expected, although convergence of standards, particularly in the area of goods manufacturing and clinical practice, which differ worldwide, may be. Analysis shows that the differences between the two procedures are not that significant to prevent their mutual recognition within the TTIP agreement. This could help further economic exchange in the pharmaceutical industry. Convergence of good manufacturing practice on both sides of the Atlantic could bring significant savings to pharmaceutical companies, which are now undergoing duplicative audits, which increase production costs. For some companies, it is so complicated to obtain authorisation that they rather refrain from exporting to the US, or European market. The results of economic modelling show a positive impact on the sector of the pharmaceutical industry, which could receive increased domestic production.

The TTIP agreement is expected to not only facilitate mutual trade, but in many ways to enhance access to both markets. The EU officially allows access to up to 85% of their **public procurement** to foreign entities, while in the US this share does not exceed 32%. A substantial segment of the US public procurement market continues to cover the exceptions under the treaty regime to the WTO GPA. The US provide, in some FTAs, a convenient mode of access to public contracts. For instance, according to the WTO GPA mode, at the federal level, the US must open the public procurement of goods and services that exceed the value of 204,000 USD to foreign entities. However, a significantly lower minimum threshold applies to a range of FTA partners (25,000 USD for deliveries of goods from Canada, or 79,507 USD for the supply of goods and services from Mexico, Australia, Colombia and Singapore). In the case that TTIP is successful, EU suppliers could access the

public procurement market in the US in a wider range than before and at the sub-federal level too. Consequently, a higher supply of goods, services and construction works for US public procurement would lead to an increase in production and contracting services in the EU. Czech companies interested in public procurement contracts in the US are particularly engineering companies (supplying rail vehicles) and potentially also firms in the construction sector. The Czech Republic has a profile as a significant exporter of medical devices. For companies in this sector it would be easier to apply for public procurement, which could open new business opportunities for them. The provisions of opening up public procurement, in particular the sub-federal level in the US, may be legally difficult with regard to the fiscal sovereignty of the states of the USA. It is therefore appropriate when agreeing on this, that the opening of sub-federal level procurement would provide appropriate legal guarantees that will be legally binding.

Negotiations on the TTIP agreement come at a time when the EU still has not concluded an internal debate on investment policy and a reflection of the new EU exclusive competence in matters of foreign direct investment. The USA have a bilateral agreement on protection of investments with nine of the 28 EU member states. These deals are agreements signed with the countries of the former Eastern bloc in the nineties. The preservation of these agreements is defined in EU Regulation no. 1219/2012 and the Czech Republic is also bound in its agreement with the US. After TTIP enters into force, the Czech Republic would, under EU Regulation no. 912/2014, against the US cease to be liable for damage to investors, which could possibly result from the fulfillment of obligations arising for the Czech Republic from EU law (for example, if the Czech authorities implemented EU regulations). In such situations, it would become an EU responsibility, including litigation, its costs and any final financial compensation.

The study also analyzes specific sectors and introduces the first estimations of the possible impact of the TTIP agreement on the Czech Republic's economy. **The results of econometric estimates** and the Computable General Equilibrium (CGE) simulations work with a comparative static framework and the elimination of customs duties and suggest a small aggregate impact. In connection with the adoption of the TTIP agreement, no significant negative consequences for the so-called deflection of trade or changes in existing foreign trade orientation towards the Czech markets within the EU are expected. Significant (however, still a low percentage) changes may occur in production / export / import at the level of individual sectors. Without knowing the final text, and how the agreement will be implemented, the estimates at the sectorial levels are only very approximate. The most significantly affected (if it will not hinder the unfinished liberalisation of non-tariff measures) are the sectors with the highest level of protection (agriculture and food processing, textile and leather industries). The used models are based on historical data and therefore cannot take into account any future opportunities that the conclusion of TTIP eventually opens. Economic theory shows that in liberalizing trade, it develops not only more intensively but also more extensively in nature. Removing existing barriers of transatlantic economic cooperation may lead to significantly higher positive impacts, particularly on small and medium businesses.

The total impact on the Czech population can be demonstrated by using the so-called equivalent variations that express how much the situation before the conclusion of the TTIP agreement would have higher average incomes of the population, in order to benefit from consumption of the same level as after its conclusion. According to this indicator, the

**elimination of tariffs** through TTIP has the potential to bring the population of the Czech Republic an overall increase in wealth of up to 32 million USD every year, which is not much. This, however, confirms previous findings about the likely positive but relatively small impact on the Czech economy. Higher potential results offer a **scenario combining very ambitious assumptions about the elimination of customs duties, together with a decline in import prices, in the context of the limitations of non-tariff barriers, by 20%**, by which the Czech population could annually generate a wealth increase of 900 million USD. This scenario, however, is to be regarded as very optimistic, because not many sectors can achieve a significant reduction of the burden.

In connection with the conclusion of TTIP, the Czech Republic has the potential to achieve a slight increase in demand for labour, which should be reflected either in a slight increase in employment, or by small wage increases. With incomplete liberalisation, the positive impact of TTIP would rapidly decline.

**Fiscal impacts** will consist of a slight increase in real income as a result of that slight increase in real GDP and real income of households. The real direct impact of the elimination of tariffs on the Czech state budget is negligible, since a significant portion of customs revenues is directed to the common EU budget and member states of the amount withdrawn leaving only 25% (to cover related costs), this proportion was for 2014-2020 further reduced to 20%.

In terms of the Czech position in TTIP negotiations, it is evident there is a relatively large degree of similarity between the interests of the major European exporters (especially Germany) and the Czech Republic. Therefore, it appears unlikely that, in general, TTIP would adopt solutions unfit for the Czech economy.

Comparative-static estimates of the benefits of TTIP are relatively low, but it is still potentially the most beneficial way of using trade policy to contribute to the growth of European economies. Alternatives in the form of other possible FTAs would most likely lead to either lower positive macro-impacts or higher risks or are currently unrealistic. Similarly, an alternative to relying on the successful conclusion of the Doha round of WTO negotiations does not seem to be currently available.