

## **PREDICTED RESULTS OF IMPLEMENTING TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP FOR AGRICULTURAL SECTOR**

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**Abstract.** Issues regarding agriculture are the most difficult topics in negotiations of the Transatlantic Trade and Investment Partnership between the European Union and the United States. The aim of the paper was to show the potential influence of the entry into force of the Transatlantic Trade and Investment Partnership at the agri-food sector in Europe. It shows the importance of agriculture in the economies of the United States and the European Union followed by an analysis of the effects of liberalization of the transatlantic agricultural trade. It was stated that relatively easily can be determined issues concerning the reduction of duty tariffs, although larger benefits in this title was reached by the United States than the European Union. Much more difficult it will be to reach agreement on the non-tariff measures and especially some of the sanitary and phytosanitary barriers. This is mainly due to the fact that the EU standards on food safety are much higher than American standards.

**Key words:** TTIP, agricultural trade, liberalisation.

**JEL code:** F10, F42, F55

### **Introduction**

The Transatlantic Trade and Investment Partnership (TTIP) is the object of wide interest. The project of this agreement includes a broad range of issues; however, in general, its goal is to establish a free trade area between the European Union and the United States. The objective of this agreement will also be to open both markets for investments, services and public procurement, consolidation of regulations, standards and norms in the scope of trade in goods and services. Removing the majority of barriers in access to the market of both partners, mainly of non-tariff character, as a consequence should trigger demand and supply processes, which are to stimulate considerably mutual exchange and increase their GDP by multiplier effects. Critics of this agreement place particular emphasis that it should grant foreign investors a new right to sue sovereign governments before arbitral tribunals for losing profits, resulting from a decision in public policy. This mechanism of "settling disputes between an investor and a country", in fact, gives equal status of trans-national capital with a national state itself, posing a threat to principles of democracy to the same extent in the European Union as in the United States.

The issues of agriculture are the most difficult in TTIP negotiations. Both the European Union and the United States have competitive agricultural sectors and belong to the biggest exporters of agri-food products. Despite developed international, bilateral and at the level of the World Trade Organization (WTO) cooperation, there are significant problems related to non-tariff barriers, regarding most often sanitary and phytosanitary regulations. Agriculture is an example of

a difficult area for negotiations, also when it is related to food safety. The parties differ in provisions regarding genetically modified organisms (GMO), hormone-treated beef, pork containing ractopamine and poultry disinfected with chlorine.

The aim of this paper is to present predicted results of implementing the Transatlantic Trade and Investment Partnership for the agri-food sector in Europe.

### **TTIP – premises and scope of negotiations**

The current trade between the EU and the USA has been performed on non-preferential conditions and has been based on the Most-Favoured-Nation Clause. However, some arrangements were made at the beginning of the 1990s, which aim was to facilitate mutual economic cooperation (Wieczorek J., 2014). They resulted in such initiatives as the New Transatlantic Agenda (NTA), the Joint Action Plan (JAP) and the Transatlantic Economic Partnership (TEP). The activities to "build bridges" were initiated at the end of the 1990s and at the beginning of the first decade of the 21st century, which result was the Transatlantic Business Dialogue (TBD), the Doha Round negotiations on the multistakeholder forum started. However, the effects of these actions were not satisfactory (Hajdukiewicz A., 2014). An important step on the way to build foundations of TTIP was to appoint the High Level Working Group on Jobs and Growth (HLWG) on the EU-US Summit in November 2011. Its task was to identify actions and measures promoting increase of trade and investments between the EU and the USA in order to create employment beneficial for both sides, to

stimulate economic growth and international competitiveness (Hajdukiewicz A., 2014).

Barack Obama, the President of the United States, officially announced opening of negotiations aiming to establish a complex Transatlantic Trade and Investment Partnership in the address on the state of the country in February 2013. Negotiations of the contract between the United States and the European Union started on 17 June the same year, whereas the first round of talks took place from 8th till 12th of July 2013 in Washington and the next ones were held every few weeks (Transatlantic Trade and Investment Partnership, 2015).

TTIP is not a traditional trade agreement, prepared, above all, to limit import duties between trade partners, as duties between the European Union and the United States are at the minimum level now. Officials from both sides state that in fact, the main objective of TTIP is to remove regulatory barriers, which limit potential profits of trans-national corporations on the markets of the EU and the USA. This includes removing or liberalising key social standards and provisions regarding natural environment, such as labour law, provisions relating to food safety (including limitations concerning GMP), regulations defining the principles of using toxic chemical substances, laws regarding privacy in the field of digital communication and even new safety rules in banking implemented to avoid a repetition of the financial crisis of 2008 (Hilary J., 2015).

In addition, TTIP aims to create new markets, by opening public services and government procurement, for competition from trans-national corporations, which can initiate a wave of privatisation in key sectors, such as protection of health or education. One of the most important objectives of TTIP is "to complete creation of a common market" within the European Union itself, in particular, by opening services and public procurement for private companies in other Member States (Hilary J., 2015).

### **The role of agriculture in economies of the United States and the European Union**

Different approaches to agricultural issues between the USA and the EU result from disparities in economic conditions, in which agriculture functions on both sides of the Atlantic.

The agricultural area of the United States constitutes about 9% of the global area. Agricultural

areas cover 45% of the country's land, out of which arable lands and orchards include 20%, whereas grasslands and pastures amount to 25%. The number of farms is 2.2 mln and their average size is about 170 ha (over 7 times higher than in Europe). The overall production value of American farms amounts to USD 287 billion, which constitutes 70% of the European production value. According to the data of the American Ministry of Agriculture about 3 mln persons work in the agricultural sector, which constitutes merely about 2% of all employed persons (this percentage is 3 times higher in Europe) (Marciniuk K., 2013).

About 7.3 mln agricultural farms and over 6 mln microfarms exist in the EU. According to the data of EUROSTAT - over 16 mln of persons are employed in the agricultural sector in the countries of the Union, which constitutes about 5.6% of all employed persons. According to the reports of OECD, the average size of an agricultural farm is 22 ha in Europe, whereas the total production value amounts to about EUR 304 billion (USD 403 billion) (Marciniuk K., 2013).

The European Union and the United States also differ in their opinions on the role and the place of agriculture. The European perspective is dominated by the idea of multi-functionality, according to which the task of agriculture is not only to produce food but also to practice other values, such as protection of rural lifestyle, concern for animal welfare, preventing climatic changes (reducing emission of greenhouse gases and increasing absorption of carbon dioxide or also including agricultural producers in other issues of environmental protection) and even caring for selected cultural and aesthetic values (rural landscape). Landscape is varied and fields are not big in Europe. Due to limited area, prices of land are high and they do not depend only on production costs. The area and use of machines cannot achieve such a scale as in the USA, Argentina or Russia, and thus, European costs will be higher, even if European farmers intensify production to obtain higher yield per hectare. When comparing the American agricultural policy with the European policy, non-economic factors have much lower significance and American agricultural producers are much more confronted with the rules of free market than European producers (Marciniuk K., 2013). Competition on the market forces them to boost performance, which takes place by increasing farm area, switching to monocultures as well as using biological and technological progress in agricultural production, inter alia, GMO. The model of diversified farms ends and

agricultural landscapes are replaced by monocultures, as a result of which biodiversity and its variability declines. These new agricultural areas are a source of environmental services to a lower extent (Industrial Agriculture: History..., 2013).

The European Union belongs to the most important trade partners of the United States as regards agricultural products. Export of the United States to the European Union increased from over USD 5 billion in 2005 to the level of USD 7.3 billion in 2013. Share of the European Union in the agricultural export of the United States amounted to nearly 10%, it did not exceed 3% in agricultural import. Starting from 2005, the United States achieve positive trade balance of agricultural products, a surplus has increased from the level of USD 3.7 billion in 2005 to USD 5.7 billion in 2013 (Dugiel W., 2015).

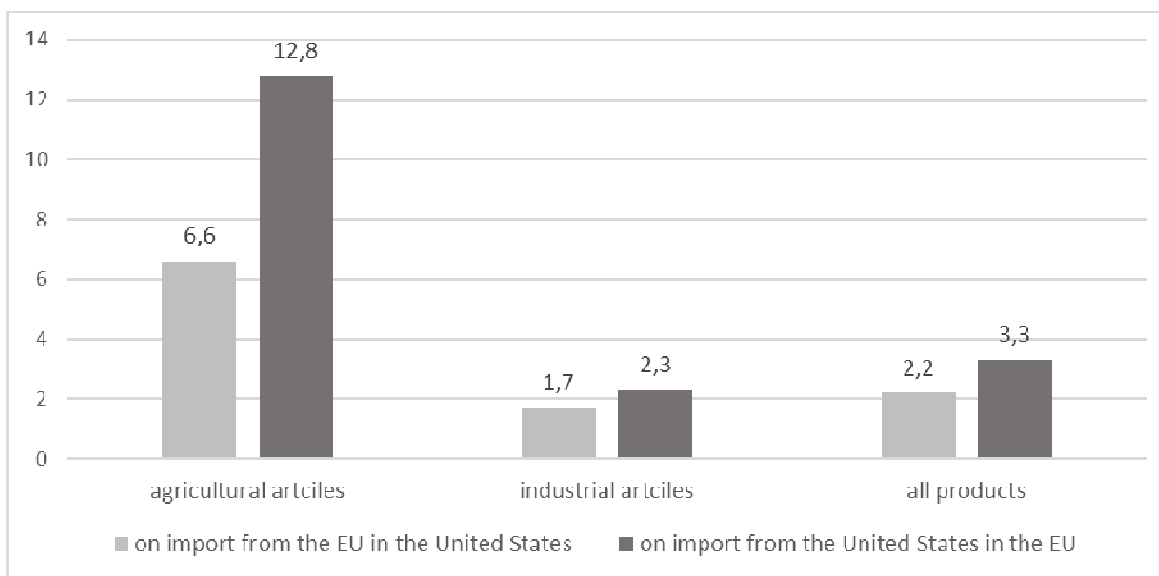
The United States are the biggest market of the Union agri-food products. The volume of exports of the EU to the USA amounted to EUR 15.4 billion, which constituted 13% of the total EU export to non-union countries. Moreover, it should be highlighted that significance of the USA as a partner in export keeps increasing, as on the one hand, demand on food goes down in the EU countries but on the other hand - maintaining the level of export to the external EU partner, namely Russia, which is second as regards importance is threatened (USD 11.9 billion, which constituted 10% of agri-food export in the EU in 2013),

both in the context of the last political events and also the embargo on import of the union pork implemented by Russia (Hajdukiewicz A., 2014).

### Potential impact of TTIP on liberalisation of agricultural trade

Negotiations conducted to establish the Transatlantic Trade and Investment Partnership (TTIP) are performed within twenty four working groups. At least two of them take up problems regarding trading with agri-food products. The first one deals with issues of agricultural markets. The second group takes up the matter of veterinary and phytosanitary standards. Elaboration of the principles regarding reduction of both tariff and non-tariff barriers include the most important tasks in the course of TTIP agricultural negotiations. In the first case, primary step would be to specify a schedule of duty reduction, then prepare lists of goods/tariff lines for which duties will be maintained and finally create a system of duty free tariff quotas and tariff quotas with reduced duties. The second area covers regulatory problems and other non-tariff barriers. In particular, it is about mitigating severity of protective impact of sanitary and phytosanitary measures as well as technical barriers (Wrobel A., 2015).

High duty rates are still maintained in agricultural trade as regards mutual turnover between the USA and the EU, which results from protectionist policy in this sector (Figure 1).



Source: author's construction based on (Fontagné, L., Gourdon, J., Jean, S. 2013)

Fig. 1. The average customs tariff applied by the United States and the European Union in bilateral relations in 2010 (in %)

A considerably greater scale of protectionism takes place on the side of the EU. The average duty rate applied for agricultural products in the EU amounted to 12.8% in 2010 and was almost twice higher than the average duty rate for these articles in the United States. Over the next years the range of average duty rates for agricultural products in the EU and the United States increased. These rates amounted to 13.2% and 4.7% in the EU and the United States in 2013. In the case of the highest rates, differences were a bit smaller: the duty rates over 100% constituted 0.8% of all tariff lines in the EU in that year, whereas it was 0.5% in the USA. Particularly high duties concerned import to the EU of such products as dairy, beef and sugar. The duty rate for cotton was 0%. In general, the market of the United States is more open for import of agri-food products. However, dairy products, sugar, nuts, beverages and tobacco constitute the only exceptions. Duty for these products reaches 95% for dairy products, 132% for nuts and even 350% for some products from the group "tobacco and beverages" (Hajdukiewicz A., 2014).

TTIP is a chance to liberalise agricultural trade between the USA and the EU, then liberalisation of this trade will take place on the forum of the WTO in exchange with other protectionist countries, both developed and developing states. However, the European Union and the United States limited liberalisation of agricultural trade in TTIP in comparison to the Agreement on Agriculture of the WTO. Only liberalisation of duty rates was included in the negotiations about TTIP. The EU and the USA apply high protectionism in agriculture in the form of internal support within the measures of the green box; thus, the USA and the EU can negotiate reduction of duties in the Transatlantic Trade and Investment Partnership, while maintaining protectionism. Evolution of changing forms of protectionism from price to direct support, forced by Doha Round negotiations, allows liberalisation of duties without depriving agricultural producers of high incomes. Support within the green box funds increased from USD 16 billion in 2000 to USD 120 billion in 2011 in the United States, whereas in the European Union it was from USD 22 billion in 2000 to USD 68 billion in 2011. In both cases national support (AMS) was limited, subject to reduction in compliance with the WTO regulations (Dugiel W., 2015).

The problem in agricultural negotiations is not only the present level of protection of agricultural markets for negotiation participants but power of agricultural

lobby in the EU Member States and the USA. As agricultural products belong to politically sensitive goods, which means that decisions regarding this sector are made under pressure of internal interest groups as a rule. Prolonged WTO negotiations within the Doha Round can prove that it is difficult to reach agreement in this sector.

Economic power of both parties to the agreement is also an additional obstacle in TTIP negotiations. Current free trade agreements concluded by the EU and the USA were negotiated with partners that were economically weaker, which facilitated imposing solutions preferred by a stronger party. However, in this case there are equal partners, which can result with unwillingness to concessions and accept decisions proposed by the other party. It can be assumed today that the result of negotiations in regulatory issues will be application of the principle of mutual recognition of standard systems. However, such solution will not eliminate problems, which results from regulatory differences, as shown by current disputes on applied sanitary and phytosanitary standards. Ability of participants to negotiate a compromise will depend on the cost and benefit account for liberalisation of trade with agricultural products and possible compensation of losses related with it through benefits resulting from liabilities adopted in other areas of the TTIP negotiations. It seems that the party, which is more interested in liberalisation of transatlantic turnover of agri-food products, is the United States. Available analyses indicate that agriculture of the USA, due to its lower production costs, has considerable competitive advantages over agriculture from the EU. These advantages currently do not lead to excessive competition of American agri-food products on the European market due to protective instruments, which have been applied. Reduction of these barriers, facilitating access to the EU market, will probably lead to asymmetric division of benefits from liberalisation. It will be caused by differences in the level of protecting markets of partners. In such a situation party, with applied lower level of protection before liberalisation of trade benefits more. In this case, these are the United States, whose duties are almost three times lower than those of the EU. Taking into account such division of benefits from liberalisation of agricultural trade as well as disputes and controversies, risen in trade relationships for years, the smallest changes in the systems of the food economy of the parties will only be implemented together with entering into force of the

agreement on TTIP, including a minor reduction of duty rates spread over time (Wrobel A., 2015).

### **Points of dispute regarding the agricultural sector in TTIP negotiations**

The issues regarding the agricultural sector belong to the most difficult elements of negotiations on transatlantic free trade area agreement. Union standards in this scope are higher than the American ones. Agriculture is an example of a difficult area for negotiations, also when it is related to food safety (Gadomski W., (ed.) (2015).

The degree of restrictiveness of sanitary and phytosanitary standards seems to be the most difficult unresolved issue in the current negotiations. Variation of sanitary and phytosanitary standards was the subject of many conflicts between the USA and the EU in the past, settled on the forum of WTO (Hajdukiewicz A., 2014). The main subject of the dispute is application of "the precautionary principle" by the European Union in accepting food safety standards. On the basis of this principle, it is possible to recall a food product from the market, if there is a risk that it poses a threat for human health, even if there is no sufficient scientific data to make full evaluation of this risk. What is important, the precautionary principle transfers the burden of proof on each company, which wants to sell a potentially hazardous product. Such a company is required to prove that its product is safe, while according to Americans such a product should be proven by adequate public authorities to be dangerous. The USA government applies the precautionary principles and the food safety standards are specified on a considerably lower level than in Europe, taking into account, above all, corporate interests (Hilary J., 2014).

Over 90% of American beef is produced by using bovine somatotrophin, considered as one of the causes of tumour occurrence in humans. Import restrictions regarding beef produced in such a way have been applied in Europe since 1988. The American government appealed against these restrictions to the WTO and the groups of entrepreneurs call to put an end to limitations within the TTIP system, as unnecessary trade barriers. The American producers of chickens and turkeys routinely disinfect poultry carcasses with chlorine before putting them for sale, which is a procedure that has not been permitted in the European Union since 1997. As in other cases the USA government appealed against this prohibition on the

WTO forum and the American companies call to put an end to these limitations within the TTIP negotiations. The European Commission made an attempt to lift this ban in the past, however, firm opposition of veterinarians and the deputies to the European Parliament prevented such action. The European restrictions concerning application of xenoestrogens (chemical compounds being endocrine disruptors of an organism) specify such low maximum level of food impurities that it is not possible to export 40% of American food to Europe. The American industrial groups look for a way to use negotiations on TTIP to eliminate these restrictions. The American food producers also acknowledged strict European restrictions on using pesticides as one of the most important standards, which should be mitigated within the TTIP. The provisions adopted in 2009 guarantee that the precautionary principle will play a key role in the European system of restrictions regarding use of pesticides, which aim is to protect human health and the environment. However, according to the leading negotiators, the same provisions have already been included on the agenda of the TTIP negotiations with the intent to mitigate them, going further than the standards adopted by the WTO, which should make them less burdensome for the food industry (Hilary J., 2014).

The European Union and the United States also differ as regards the provisions concerning the genetically modified organisms (GMO). Import and turnover of genetically modified food and fodder as well as cultivation of GMO on the area of the Union are allowed according to the current union legislation however, it is strictly regulated. According to the procedure of releasing GMO on the mutual market, the European Food Safety Authority (EFSA) prepares the scientific risk evaluation for a given product, checking if it is equally safe as its unmodified equivalents. After positive verification the European Commission presents to Member States a draft decision on releasing a given product for trade and voting takes place according to the qualified majority principle. If the Member States are not able to agree on a decision, the Commission approves the product on the basis of the positive decision made by the EFSA. In the case of approved genetically modified food and fodder, Member States can limit or prohibit their use only if they are able to prove that a given product can pose a threat to health and the environment. Such principles also regarded GMO cultivation however, since April 2015, as a result

of amending the union law, there is greater possibility to limit or ban cultivation of GMO species by the union members on their territories, which have earlier been allowed on the Union level. A Member State can issue such a ban on the basis of the environmental protection principles adopted by it as well as spatial development conditions. Implementing the TTIP can lower food standards binding in the Union, implement GMO food and force farmers to GMO cultivation. The European Commission has proposed to change regulatory framework concerning the GMO in food and fodder in order to enable Member States to limit or ban their application, after their previous admission to the internal market of the Union. Strict limits have been indicated in the mandate to the TTIP negotiations for the European Commission by the Council of the EU. Discussions cannot change internal Union legislation regarding the GMO and food safety. These negotiations will be conducted according to the scheme of mutual concessions in "prohibited" zones, e.g. by wide opening of the Union market for GMO in exchange for admitting

of trade. They can constitute a strong impulse to search for channels for communication.

Union beef to the USA, however, they will consider the principles of further regulatory cooperation of veterinary and phytosanitary services (Gadomski W., (ed.) (2015).

## Conclusions

It is difficult to clearly estimate the balance of profits and losses resulting from the transatlantic agreement without knowing the final effects of negotiations. However, it can be noticed that it will be very hard to reach a compromise in the scope of bilateral liberalisation of exchange regarding agri-food products. Negotiations in this scope will be conducted under pressure of various internal interest groups and discrepancies are very big in the scope of applied non-tariff measures, including especially some sanitary and phytosanitary barriers between Europe and the United States. However, it should also be stated that both negotiating parties are key partners in terms of agri-food trade, which can potentially result in big benefits coming from further liberalisation

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