



# trade hot topics

## The Transatlantic Trade and Investment Partnership: Implications for LDCs and Small States

Jim Rollo, Max Mendez Parra and Sarah Ollerenshaw\*

### Background

On 13 February 2013, the President of the United States, the President of the European Commission and the President of the European Council jointly announced that the EU and the USA agreed to launch negotiations on a Transatlantic Trade and Investment Partnership (TTIP) with the aim of signing an agreement in 2015. This comes against a background of the ongoing World Trade Organization (WTO) negotiations impasse; the rush to preferential agreements, both regional and bilateral, that have been signed since the formation of the WTO in 1993; the changing landscape of world trade including the rise of Asia and China in particular; and the increasing importance of deep integration in goods trade and the growth of trade in services (both accompanied by direct increased investment and intellectual property flows). The negotiating mandates for the TTIP are not publicly available at the time of writing and as such the result contained in the final report of the EU–US High Level Working Group on Growth and Jobs (HLWG) has been used as a guide in terms of the maximal intentions of both sides for the content of the TTIP.

This issue of *Commonwealth Trade Hot Topics* examines the potential impact of a TTIP on third

countries and in particular on Commonwealth small states and least developed countries (LDCs). The paper covers twelve Caribbean, nine Pacific, twelve African, and two Asian states.<sup>1</sup> In general the paper focuses on each of these as regional groups, with reference to specific countries and products as necessary. The focus here is on trade in goods alone. Services trade is not considered largely because of the absence of relevant data.

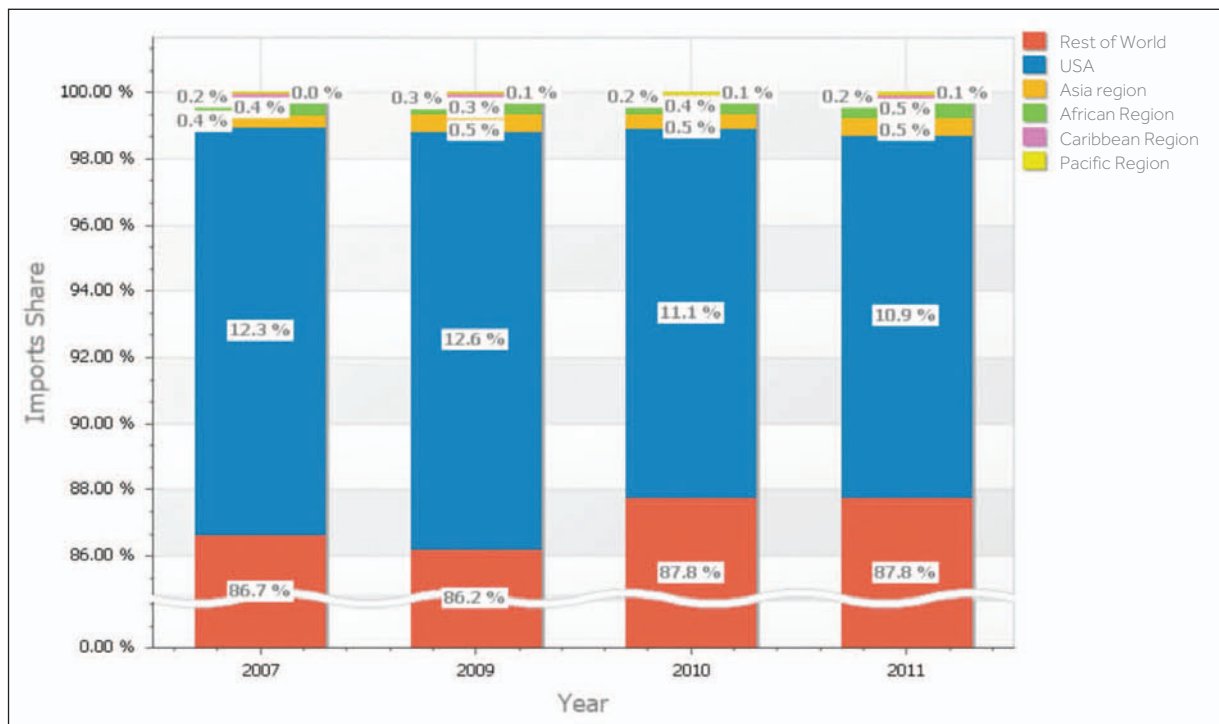
### Potential effects of the TTIP arrangements on third countries

The key issues considered here are the identification of the most important products in US/EU imports from Commonwealth small states and LDCs and how vulnerable the products are to trade diversion/preference erosion. As far as tariffs are concerned, the European Union and the USA currently apply their most favoured nation (MFN)

<sup>1</sup> The Caribbean countries are Antigua and Barbuda, The Bahamas, Barbados, Belize, Jamaica, St Lucia, St Vincent and the Grenadines, Dominica, Grenada, Guyana, St Kitts and Nevis, and Trinidad and Tobago. The Pacific countries include Kiribati, Samoa, Solomon Islands, Tuvalu, Vanuatu, Tonga, Fiji, Nauru, and Papua New Guinea. The countries drawn from Africa are Botswana, Mauritius, Namibia, Seychelles, Swaziland, Malawi, Mozambique, Rwanda, Sierra Leone, United Republic of Tanzania, Zambia, and Lesotho. The Asian countries are Bangladesh and Maldives.

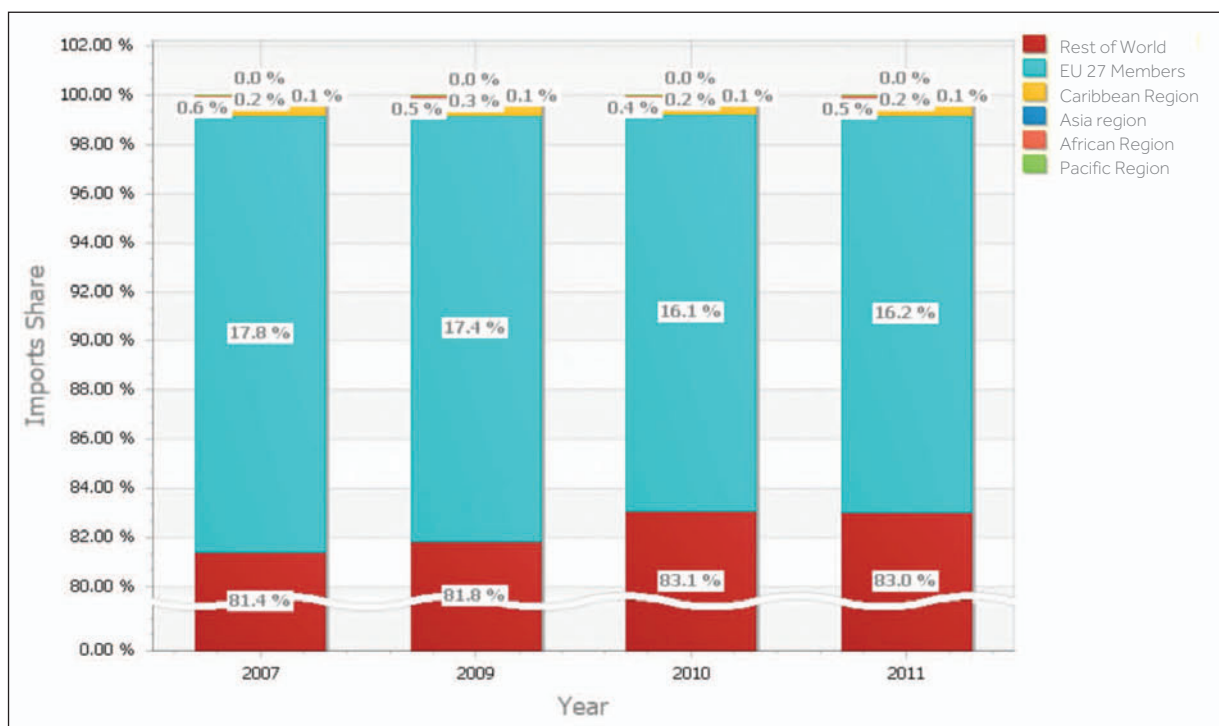
\* The authors are respectively Professor, Emeritus at the University of Sussex and Director at InterAnalysis Ltd; Research Associate of CARIS, University of Sussex and Director of IDEAS Consulting Ltd; and Economic Operations Manager of InterAnalysis Ltd. Due acknowledgement also to Veniana Qalo, Economic Adviser with the Commonwealth Secretariat, for the valuable input provided to this paper. The views expressed in this paper are those of the authors and do not necessarily reflect the views of the Commonwealth Secretariat.

Figure 1: European Union Imports Share 2007, 2009-2011



Source: Comtrade via WITS, aggregated from 6-Digit data

Figure 2: USA Imports Share 2007, 2009-2011



Source: Comtrade via WITS, aggregated from 6-Digit data

tariffs to each other. It is these MFN tariffs which will be abolished in transatlantic trade and these that will determine the size of loss of competitiveness of excluded countries. Figures 1 and 2 show that the shares of EU and US import shares in each other's markets for goods are shrinking to the advantage of the rest of the world and the Commonwealth small

states and LDCs (whose shares in each market are however very small).

The EU and US loss of market share in each other's market suggests a potential for trade diversion at the expense of both the Commonwealth small states, LDCs and the rest of the world. However much depends on the size of the barriers to be

**Table 1: Average Tariffs**

EU and US Average Applied and MFN Tariffs on Imports from Commonwealth Small States and LDCs		
Commonwealth Small States and LDC Partners – Importer: European Union	EU Applied Tariff	EU MFN Tariffs
African Region	0.00	4.55
Bangladesh	0.00	6.09
Caribbean Region	0.01	3.98
Maldives	0.00	3.76
Pacific Region	0.16	3.88
Commonwealth Small States and LDC Partners – Importer: United States	US Applied Tariff	US MFN Tariffs
African Region	0.72	4.93
Bangladesh	5.75	7.36
Caribbean Region	0.59	3.68
Maldives	2.01	2.01
Pacific Region	3.07	4.21

abolished. Calculations based on the TRAINS Database give the EU simple average tariff against the USA as 4.1 per cent and the average US MFN tariff against the EU as 3.5 per cent. These are not high average tariffs and as such do not suggest a Free Trade Agreement (FTA) would endow major competitive advantage on either the EU or the USA in transatlantic trade.

Even when we look at the specifics of the regional groups, the potential impacts do not appear to be large (see Table 1). Since almost all of the countries represented are in receipt of preferences from the EU and the USA (with the exception of Bangladesh on its major exports to the US market), the MFN rate represents the absolute measure of the potential average preference erosion. In general, this is below 5 per cent.

However, these regional or country averages may not reveal the full story. If MFN tariffs are high on main export products from the Commonwealth sample countries then the threat from trade diversion may be more significant. For example, EU and US tariffs are typically more (and often much more) than 10 per cent on textiles and clothing which are important to countries like Bangladesh and more often Africa. Similarly, even where MFN tariffs are low there may be other barriers arising from Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) regimes.<sup>2</sup>

<sup>2</sup> Sanitary and phytosanitary measures are used by governments to ensure that food is safe for consumers, and to prevent the spread of pests or diseases among animals and plants. Sanitary and phytosanitary measures, by their very nature, may result in restrictions on trade. On the other hand, Technical Barriers to Trade refers to non-tariff barriers in goods and services including products standards, labelling requirements, health certification and intellectual property rights.

**Table 2: Commonwealth Small States and LDCs: Indicators of Potential Trade Diversion Losses in the EU Market**

		African Region	Asian Region		Caribbean Region	Pacific Region
			Bangladesh	Maldives		
Value of EU market for Non-oil exports 2011	\$bn	11.9	11.9	0.1	2.2	1.5
No. of Top 20 Imports with EU MFN Tariffs	0.1 - 5%	2	0	5	4	7
	5 - 9.9%	0	0	0	4	3
	10 - 14.9%	3	19	4	1	0
	more than 15%	1	0	1	1	1
No. of products in top 20 sensitive to SPS regimes		12	0	10	6	10
No. of products in top 20 with positive RCA		16	19	7	20	14
No. of products in top 20 with RMA > 1		17	20	4	3	8

It is difficult to quantify these non-tariff barriers but we can at least determine how many products in each country and regions are important exports to the EU and USA at 6-digit level and therefore potentially sensitive to changes in SPS regimes in particular.

The EU and USA's top 20 imports at HS 6 digit level from Commonwealth small states and LDCs in Africa, the Caribbean, the Pacific and the two Asian countries were therefore analysed. Typically they represented more than 80 per cent of the EU and the USA's total imports from these Commonwealth states.

The results reveal that Bangladesh has 19 out of the top 20 exports to the EU with MFN tariffs between 10 and 15 per cent, but it also has positive Revealed Comparative Advantage (RCA) versus the USA in top twenty products to the EU. This suggests that US producers will have difficulty in exploiting the benefits of the abolition of MFN tariffs in these categories on the EU markets.

The African region has one product with an MFN rate of more than 15 per cent in the EU market. Reference to the more detailed data reveals that the high tariff relates to a variety of tuna (HS160414) products. In the US market the African region looks particularly vulnerable with four products<sup>3</sup> in the 10–14.9 per cent MFN tariff range and four above 15 per cent.<sup>4</sup> These largely relate to clothing categories (presumably covered by AGOA – the African Growth and Opportunity Act). A major exception is a category of tobacco products which attracts an average MFN tariff of 77 per cent in the USA. It would not be surprising if this was in the US list of sensitive products and unlikely to be abolished in EU–US trade, not least because imports from the EU are very low and much lower than from the African region.

Only the Pacific region and Maldives have ten or more products out of the EU and US top twenty imports from them potentially sensitive to changes in SPS regimes resulting from the TTIP; not surprisingly these are largely concentrated in fish products (Table 3).

Overall the analysis suggests that the average EU and US MFN tariffs in Table 1 hide significant MFN peaks and hint at potential for lost market share among top-twenty exports to the EU and USA as a result of the TTIP, notably for the Africa region and Bangladesh. However the high levels of competitiveness revealed by the bilateral RCA and RMA (Revealed Market Access) suggest that EU and US producers might find it difficult to displace Commonwealth small states and LDC producers from the transatlantic market place despite the size and number of MFN tariff peaks revealed in Tables 2 and 3.

### Partial equilibrium analysis of the effects of TTIP on Commonwealth small states and LDCs – effects on individual countries

The detailed results of the partial equilibrium analysis suggest that the effects are small, with only a few pairs presenting effects in imports higher than a million US dollars.<sup>5</sup> Bangladesh is the country that presents the majority of affected products and the country that exhibits the highest negative effects. In particular, exports to the EU in a wide range of textiles and garments risk being affected. Also, aluminium oxides from Jamaica and some aluminium products in the case of Mozambique are

<sup>3</sup> Men's shirts (HS620520), jerseys (HS611020), tuna (HS160414), women's trousers (HS620463 and HS610462).

<sup>4</sup> Jerseys (HS611030), women's trousers (HS610463), tobacco (HS240120), men's shirts (HS610510).

**Table 3: Commonwealth Small States and LDCs: Indicators of Potential Trade Diversion Losses in the US Market**

		African Region	Asian Region		Caribbean Region	Pacific Region
			Bangladesh	Maldives		
Value of US market for Non-oil exports 2011	\$bn	1.75	3.95	0.1	3.2	0.3
No. of Top 20 Imports with US MFN Tariffs	0.1-5%	2	1	0	3	2
	5-9.9%	2	7	0	2	0
	10-14.9%	5	8	1	0	1
	more than 15%	4	2	1	0	1
No. of products in top 20 sensitive to SPS regimes		4	1	10	6	12
No. of products in top 20 with positive RCA		18	20	8	14	8
No. of products in top 20 with RMA > 1		9	16	1	18	7

also found to be affected. Similarly the effects on Commonwealth countries are also very small in the USA. The exceptions are petroleum oils from Trinidad and Tobago and The Bahamas, where some relatively important effects can be seen.<sup>6</sup> It is important to observe that textiles and garments (some of the specific lines also seen in the previous tables) would also be affected. As a result Bangladesh and Mauritius are potentially more likely to be affected by the TTIP. Additionally, given very high applied tariffs, Malawi exports of tobacco to the USA would also be affected.<sup>7</sup>

In general, the effects in both Commonwealth exports to the EU and the USA are expected to be minimal. The differences in the trade structures between the EU and USA and the Commonwealth members suggest that the products that will observe important changes in the trade between the EU and the USA are not exported by the Commonwealth countries. On the other hand, the Commonwealth countries tend to specialise in products where the applied tariffs by the EU and the USA are zero. Therefore, no effects can be expected in these products. The combination of these two elements explains the general low effects on the Commonwealth members.

There are some exceptions, of course, that may be relevant for some particular sectors in some countries. A wide range of textiles and garments products, in particular those coming from Bangladesh, will have some relatively important effects. Also, but unlikely, some petroleum oils from the Caribbean into the USA may see some negative effects. Other products such as aluminium, tobacco and some shellfish may be of importance for some countries. However, the importance of these effects is only manifested in the context of these particular products and countries; their importance in terms of the total exports of these countries to the EU and the USA and in total trade is clearly not large.

### Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT)

Analysis based on the trade and tariff statistics alone does not address the impact of the SPS measures in food safety and Phyto-zoo health or TBTs on manufactures.<sup>8</sup> There can also be discrimination against third parties where any existing regulatory obstacle to trade is reduced or abolished but only for some partners. However the size of such obstacles and hence their impact is much more difficult to assess. These effects are likely to be important where the preferential partners are big markets, as is the case with the EU and USA. Similarly mutual

recognition agreement in regulatory areas could equally be discriminatory or trade enhancing depending on how easy it is for others to comply.<sup>9</sup> Detailed analysis on country by product by market data is required and is not at this point available for Commonwealth small states and LDCs but some general points are raised below.

Our results reveal that 12 products from the African region, 10 each from Maldives and the Pacific region and six from the Caribbean region are sensitive to SPS regimes in the EU market. In the US market, the African region has four products that are sensitive to its SPS regimes, while 12 products from the Pacific region, 10 products from Maldives, six products from the Caribbean region and one product from Bangladesh are also sensitive to the US SPS regime.

Reference to the more detailed data reveals that fisheries products are particularly sensitive to SPS rules and it is also a measure where many developing countries have particular difficulties with compliance. SPS measures applicable to fish products (which are notable in the top 20 groups identified above) seem to present difficulties currently in both the EU and USA. Countries struggling to comply with EU/US SPS requirements might well find it difficult to face any additional obstacles which result from the TTIP. However, countries currently complying with EU or US SPS requirements might stand up well to any levelling up of regulatory requirements.

### Conformity assessment and certification

There are potential problems for developing country exporters in conformity assessment and certification but there is already a degree of transatlantic harmonisation underway. At the official level, the HACCP is already the basis of the FDA and EU rules, and the private sector also has conformity assessments. Nonetheless, while the EU and USA

<sup>5</sup> These results are derived from the TAPES model that makes use of small country assumption.

<sup>6</sup> Since the exports of these products are based on the availability of oil and/or sunk investments, it is likely that the actual effect will tend to be minimal. Nevertheless, for completeness we report these results.

<sup>7</sup> Given the magnitude of the tariffs applied by the USA in these products (between 38% and 350%) it is likely that these products will be included in possible sensitive products list by the USA during the negotiations. Therefore, smaller (even zero) effects should be expected.

<sup>8</sup> SPS measures in Phyto-zoo health are designed for the protection of animal health. Meat exporting countries are usually required to ensure that their methods of meat production and animal products comply with the phyto-zoo health requirements of importing countries.

<sup>9</sup> With MRAs countries agree to accept the quality or safety rules of their partner as equivalent to their own even when they are not identical. Mutual recognition of mandatory standards and MR of conformity assessment have to be agreed separately however.

have similar systems, they are not identical. TTIP might imply a move towards mutual recognition of conformity assessment. If mutual recognition is agreed with no recognition for third country bodies, it would create a significant competitive advantage for EU and US exporters.

## Conclusions and policy options

In general, the analyses of goods trade suggest that there may be some products in some countries that will run a risk of losses in market share or deterioration in terms of trade on EU and US markets as a result of TTIP. The quantitative analysis suggests these are likely to be small overall and according to our qualitative assessment the countries or regions specialising in products that attract the highest MFN barriers in transatlantic trade are also very competitive despite existing barriers and might be expected to continue to compete strongly on their top 20 products.

On SPS, while once more there is the potential for regulatory requirements to get tougher under Mutual Recognition Agreements (MRAs) or harmonisation, there are also potential economies in compliance cost from harmonisation across two very large markets.

In terms of policy options, first and foremost third countries are not in the negotiating room. Options are therefore limited. It is largely a lobbying exercise. Given the small market presence of most countries in the Commonwealth small states and LDC group in the EU and USA this might best be done co-operatively perhaps through the Commonwealth or the ACP Group (African, Caribbean and Pacific group of states), or perhaps the G90 Group. But it is worth noting that the United Kingdom as an EU and Commonwealth country is only in the room for the intra EU negotiation and only the European Commission is in the room with the USA in the final analysis.

In terms of lobbying, influential non-governmental organisations might also lobby on behalf of excluded countries. It would also be sensible to organise lobbying of the US Congress, the European Parliament and EU member governments, as well as the USTR (Office of the US Trade Representative) and the European Commission's DG Trade/DG Agriculture. But that begs the question of what to lobby for.

For top export products and where EU/US MFN tariffs are high, Commonwealth small states and LDCs could ask for compensation for the preference erosion induced by the TTIP. This could take two forms. First and in parallel with the TTIP negotiations, they could ask for more preferences to compensate. This would

be quite problematic because many countries in the Commonwealth that we are concerned with already receive tariff and quota free trade under the terms of the EU's 'Everything but Arms' agreement, and also are enjoying US tariff preferences under AGOA. It is therefore difficult to see where there is much room for manoeuvre to grant more preferences. The one exception is Bangladesh in the US market where its exports actually attract the full MFN tariffs. The USA could therefore cut tariffs on Bangladesh in parallel with those for the EU.

The second option is to wait until the EU–US negotiations are completed and seek compensation under Article XXIV of the General Agreement on Tariffs and Trade (GATT). That has all the same problems of the first option plus a longer wait for any pay-off. The only extra leverage that this approach might have is that it might embarrass the EU and USA to have developing countries pursuing a case against them in the WTO.

Another perhaps more remote possibility is to ask for export products with high MFN tariffs to be excluded from TTIP, that is, be added to any EU and US sensitive products list. That, however, would be subject to the 'substantially all trade' rubric in the WTO and it is hard to see why the EU or USA might give up that domestic policy space to benefit developing countries. High tariffs however usually signal active domestic interests and such an approach might allow coalitions to be built with influential EU and US domestic interest groups which wish their products to be excluded from the TTIP.

On regulatory integration, two possible options (which do not exclude each other) are possible. The first is to request inclusion in any Mutual Recognition Agreements between the EU and the USA. This would have the advantage of firms being able to settle on one set of regulatory requirements or the other but qualify for access to both markets. The second is to request for aid to help with adaptation to any new regulatory requirements arising from TTIP. Notably to help firms meet any new testing and certification requirements.

Finally, there is the do-nothing option. The TTIP may never happen. There are lots of potential show-stoppers in this negotiation, as early statements from the French Government on the inviolability of the audio visual exception and from US farmers on the protectionist iniquity of the precautionary principle demonstrate. The alternative for excluded countries would be to focus on increasing competitiveness at home, that is, aim for market led adaptation rather than seek mitigation through compensation.

# International Trade & Regional Co-operation Section at the Commonwealth Secretariat

This Trade Hot Topic is brought out by the International Trade and Regional Co-operation (ITRC) Section of the Economic Affairs Division (EAD) of the Commonwealth Secretariat, which is the main intergovernmental agency of the Commonwealth – an association of 54 independent states, comprising large and small, developed and developing, landlocked and island economies – facilitating consultation and co-operation among member governments and countries in the common interest of their peoples and in the promotion of international consensus-building.

ITRC is entrusted with the responsibilities of undertaking policy-oriented research and analysis on trade and development issues and providing informed inputs into the related discourses involving Commonwealth members. The ITRC approach is to scan the trade and development landscape for areas where orthodox approaches are ineffective or where there are public policy failures or gaps, and to seek heterodox approaches to address those. Its work plan is flexible to enable quick response to emerging issues in the international trading environment that impact particularly on two highly vulnerable Commonwealth constituencies – least developed countries (LDCs) and small states.

## Scope of ITRC Work

ITRC undertakes activities principally in three broad areas:

- It supports Commonwealth developing members in their negotiation of multilateral and regional trade agreements that promote development friendly outcomes, notably their economic growth through expanded trade.
- It conducts policy research and consultations increase understanding of the changing of the international trading environment and of policy options for successful adaptation.
- It contributes to the processes involving the multilateral and bilateral trade regimes that advance the more beneficial participation of Commonwealth developing country members, particularly small states and LDCs.

## ITRC Recent Activities

ITRC's most recent activities focus on assisting member states in the WTO Doha Round and the Economic Partnership Agreement (EPA) negotiations involving the African, Caribbean and Pacific countries (ACP) the European Union (EU), undertaking analytical research on a range of trade policy and development issues, and supporting workshops/dialogues for facilitating consensus-building on issues of Commonwealth members' interest, exchange of ideas, and disseminating results from informed analysis.

## Selected Recent Meetings/Workshops supported by ITRC

25-27 October 2013: International Conference on Upcoming Ninth WTO Ministerial in Bali: Securing the LDCs Deliverables held in Dhaka, Bangladesh

25-26 September 2013: ACP Brainstorming Meeting on the 9th WTO Ministerial Conference and the Post-Bali Framework held in Geneva, Switzerland

2-4 September 2013: 6th South Asia Economic Summit (VI SAES) held in Colombo, Sri Lanka

2-3 July 2013: Regional Consultation Conference on the Road to Bali held in Colombo, Sri Lanka

25-26 June 2013: Commonwealth Workshop on Multilateral Trade Issues: Development perspectives for Small Vulnerable Economies (SVEs) and Least Developed Countries (LDCs) held in Geneva, Switzerland

6-7 June 2013: Regional Consultation: Promoting Regional Supply Chains in Sub-Saharan Africa: Leather and Leather Products held in Addis Ababa, Ethiopia

2-3 May 2013: International Conference on Regional Trade and Economic Cooperation in South Asia: Trends, Challenges and Prospects held in Delhi, India

8-9 April 2013: Consultative Meeting on Multilateral Trade Issues for Commonwealth Small States held in London, UK

4-8 March 2013: Commonwealth Workshop on Trade Policy and Negotiations Skills for the Eastern Caribbean Region held in Castries, St. Lucia

4-8 February 2013: Commonwealth Workshop on Trade Policy and Negotiations Skills for the Pacific Region held in Port Vila, Vanuatu

29-31 October 2012: Commonwealth Investment Guide and Promotion of the New Negotiator's Handbook for Developing Countries held in Port of Spain, Trinidad & Tobago



## Subjects of the Previous Ten Issues of the Commonwealth Trade Hot Topics Series

- Issue 101: What Role for Trade Policies in Low-income and Small Economies When Food Prices Spike?
- Issue 100: Global Value Chains: What Role for Aid for Trade?
- Issue 99: 'The Right to Trade': A Mechanism for Revitalising Pro-Development WTO Negotiations?
- Issue 98: Build up to the Ninth WTO Ministerial Conference: Issues of Interest to LDCs
- Issue 97: Food Security and Trade Issues for Poor and Small Vulnerable Economies
- Issue 96: Managing Fiscal Adjustment Costs of Regional Trading Arrangements: The Case of Small Island Pacific States
- Issue 95: Eco-labelling: Challenges and Opportunities for Small States and LDCs
- Issue 94: EU Proposal to End Preferences of 18 African and Pacific States: An Assessment
- Issue 93: Trade Solutions in a Global Green Economy: Small and Vulnerable Economies and the Rio+20 Conference
- Issue 92: The Eighth Ministerial Conference of the WTO: A Forward Looking Agenda for Development



# trade hot topics

ISSN: 2071-8527 (print) ISSN: 2071-9914 (online)

Series editor: Dr Mohammad A Razzaque

Produced by the Economic Affairs Division of the Commonwealth Secretariat

For further information or to contribute to the Series, please email [m.razzaque@commonwealth.int](mailto:m.razzaque@commonwealth.int)