Negotiations on the Transatlantic Free Trade Area. Effects of the Proposed Agreement on the Economies of the European Union and the United States of America

Eugeniusz Gostomski, Tomasz Michałowski
University of Gdańsk, Armii Krajowej 119/121, 81-824 Sopot, Poland

Abstract

The paper is devoted to the Transatlantic Trade and Investment Partnership (TTIP), which is also called the Transatlantic Free Trade Area (TAFTA). The problem is whether TTIP should be created, and if yes, what shape it should take, and how it will affect the economies of the European Union (EU) and the United States (US). The aim of the paper is to answer the questions: what is the essence of the TTIP agreement, what reasons for this project are and what consequences will it have? At first, the authors present a declining role of the EU and the US in the global economy. Next, they analyse trade and investment flows between the EU and the US. Then, they analyse main motives for TTIP and present the course of TTIP negotiations. In the next section, the authors discuss the main barriers to the economic relations between the EU and the US. Then, they deal with controversies around the protection of investment and with concerns and risks arising from TTIP. In the final section, the authors analyse political consequences of launching TTIP. The authors conclude that the establishment of a free trade area covering the EU and the US could contribute to economic recovery on both sides of the Atlantic. The combination of lower production costs in the US with the highest European technological potential is a prerequisite for the production of excellent products at competitive prices and their sales in international markets, which in turn can stop the trend of decline in the role of the EU and the US in the world trade. The TTIP would also strengthen transatlantic political ties and make the voice of the EU and the US more powerful in the process of searching solutions of many problems of the modern world. The authors use descriptive and analytical method of analysis based on journal articles, information obtained from the Internet and publications of international organizations.

KEYWORDS: Transatlantic Trade and Investment Partnership, TTIP, Transatlantic Free Trade Area, TAFTA, international economic integration, European Union, United States.
Introduction

The paper is devoted to the Transatlantic Trade and Investment Partnership (TTIP), which is also called the Transatlantic Free Trade Area (TAFTA). TTIP is a proposed free trade agreement between the European Union (EU) and the United States of America (US), which is still under negotiation. The TTIP deal has sparked many controversies on both sides of the Atlantic. The problem is whether TTIP should be created, and if yes, what shape it should take, and how it will affect the economies of the European Union (EU) and the United States (US).

The aim of the paper is to answer the questions: what is the essence of the TTIP agreement, what reasons for this project are and what consequences will it have? This aim is achieved by using the following tasks.

1. Identifying the main barriers in the current economic relations between the European Union and the United States.
2. Defining the arguments for TTIP.
3. Defining the arguments against TTIP.
4. Defining the economic (and political) consequences which TTIP will have for both the EU and the US.

TTIP issues have found so far little attention in the literature. For example, in Poland, the authors of many publications in the field of international economic relations relate to general principles of the institutional forms of international economic integration, including a free trade area, but without specific reference to TTIP. One can mention such items as: Świerkocki (2011) or Budnikowski (2006). It is understandable due to the fact that TTIP is still a project. However, yet now the proposed agreement is subject to much controversy.

Scientific originality and practical significance of the article are:
- special emphasis on different expectations on TTIP from the EU and the US,
- analysis of the economic (as well as political) consequences of TTIP.

The authors use descriptive and analytical method of analysis based on journal articles, information obtained from the Internet and publications of international organizations.

If the agreement on TTIP is concluded, we will have to deal with the most significant event in international politics in the current decade with far-reaching consequences for the entire world economy. The authors conclude that the establishment of a free trade area covering the EU and the US may contribute to economic recovery on both sides of the Atlantic. The combination of lower production costs in the US and the highest technological potential of the EU is a prerequisite for the production of excellent products at competitive prices and their sales in international markets, which in turn can stop the trend of declining role of the EU and the US in the global trade. TTIP should also strengthen transatlantic political ties and make the voice of the EU and the US more powerful in the process of solving many problems of the modern world.

The European Union and the United States of America are considered traditionally as the two biggest economic powers in the world. At the beginning of the 1990s, they together accounted for more than 45% of the global GDP on a purchasing power parity basis (PPP). Their share in world merchandise trade amounted to nearly 60% and their share in global foreign direct investment (FDI) outflows was over 70%. The European Union and the United States were also the two most important host economies for FDI, accounting for 60% of global FDI inflows) (see Tables 1, 2 and 3).

At the beginning of the 1990s, the period of the longest expansion in the history of the US economy began. After the economic slowdown of 1990/1991, in 1992-1996, the US real GDP grew on average at a rate of 3.3% per annum (Figure 1). In 1997, an acceleration in economic growth in the United States was observed. Over the next four years, i.e. until 2000, GDP annual growthDeclining role of the EU and the US in the global economy
rate in that country was at 4.4%. In the late 1990s, the unemployment and inflation rates in the US fell to record low levels (Kotz, 2003). In 2000, the US GDP was 40% above its 1991 level in real terms.

The economic expansion in the US in 1992-2000 enabled that country to maintain a stable share in the global GDP. Given slow economic growth in the European Union, the US GDP reached almost the level of the EU GDP (Table 1). However, the positions of the United States and the European Union as major economic powers in the world began to be undermined by the BRIC countries including, in particular, China. The GDP of the latter country increased by almost 150% between 1992-2000. In 2005, as a result of the continued rapid economic growth in Brazil, Russia, India and China, BRIC surpassed both the US and EU GDP in terms of PPP. In subsequent years, when the economies of the EU and the US were badly affected by the global financial and economic crisis, the relative position of BRIC in the world economy strengthened. In 2013, the BRIC GDP in PPP terms was 75% higher than the US GDP and 69% higher than the EU GDP. At the same time, it represented 86% of the total GDP of the US and the EU.

In 2013, BRIC surpassed the United States in terms of the value of foreign trade. However, foreign trade of the European Union was still as much as twice larger than BRIC’s foreign trade (Table 2). In 2012-2013, the BRIC group was world’s number one FDI destination with the increasing role as a source for global FDI (Table 3).

In 2013, the United States and the European Union together accounted for one third of the global GDP in terms of purchasing power parity, and their share in global merchandise imports and exports exceeded 40% (Table 1). The data indicate a significant decline in the relative importance of the US and the EU in the global economy over the last 20 years. It is estimated that this trend will continue in the coming years. According to forecasts by PricewaterhouseCoopers, in 2030, China’s GDP in terms of PPP will exceed by 31% US GDP. In the group of six largest world economies will be – beyond the two mentioned ones – the economies of India, Japan, Russia and Brazil (PwC, 2013).

### Table 1

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>EU-28</td>
<td>24.1</td>
<td>22.7</td>
<td>22.5</td>
<td>20.1</td>
<td>17.4</td>
<td>17.1</td>
</tr>
<tr>
<td>US</td>
<td>21.2</td>
<td>21.3</td>
<td>21.1</td>
<td>18.9</td>
<td>16.7</td>
<td>16.5</td>
</tr>
<tr>
<td>BRIC</td>
<td>14.8</td>
<td>16.4</td>
<td>18.6</td>
<td>23.2</td>
<td>28.2</td>
<td>28.9</td>
</tr>
</tbody>
</table>

Source: Authors, on the basis of World Bank (2015).

### Table 2

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU-28</td>
<td>43.7</td>
<td>40.4</td>
<td>40.7</td>
<td>38.2</td>
<td>31.6</td>
<td>32.3</td>
</tr>
<tr>
<td>US</td>
<td>11.8</td>
<td>12.3</td>
<td>10.7</td>
<td>8.2</td>
<td>8.4</td>
<td>8.4</td>
</tr>
<tr>
<td>BRIC</td>
<td>4.8</td>
<td>6.4</td>
<td>8.3</td>
<td>13.4</td>
<td>16.9</td>
<td>17.5</td>
</tr>
<tr>
<td>Imports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU-28</td>
<td>44.6</td>
<td>38.5</td>
<td>39.0</td>
<td>39.0</td>
<td>31.7</td>
<td>31.4</td>
</tr>
<tr>
<td>US</td>
<td>14.2</td>
<td>15.8</td>
<td>18.0</td>
<td>14.2</td>
<td>12.6</td>
<td>12.4</td>
</tr>
<tr>
<td>BRIC</td>
<td>4.3</td>
<td>5.6</td>
<td>6.9</td>
<td>10.8</td>
<td>15.5</td>
<td>16.0</td>
</tr>
</tbody>
</table>

Source: Authors, on the basis of UNCTAD (2015).

### Table 3

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI inflows</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU-28</td>
<td>47.4</td>
<td>29.6</td>
<td>50.2</td>
<td>43.2</td>
<td>16.2</td>
<td>17.0</td>
</tr>
<tr>
<td>US</td>
<td>11.5</td>
<td>21.2</td>
<td>11.8</td>
<td>10.8</td>
<td>12.1</td>
<td>12.9</td>
</tr>
<tr>
<td>BRIC</td>
<td>8.6</td>
<td>14.9</td>
<td>12.5</td>
<td>10.0</td>
<td>19.6</td>
<td>20.3</td>
</tr>
<tr>
<td>FDI outflows</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU-28</td>
<td>51.9</td>
<td>47.5</td>
<td>49.7</td>
<td>55.5</td>
<td>17.7</td>
<td>17.8</td>
</tr>
<tr>
<td>US</td>
<td>20.9</td>
<td>20.1</td>
<td>25.6</td>
<td>17.4</td>
<td>27.2</td>
<td>24.0</td>
</tr>
<tr>
<td>BRIC</td>
<td>2.8</td>
<td>1.5</td>
<td>1.9</td>
<td>4.2</td>
<td>10.6</td>
<td>13.8</td>
</tr>
</tbody>
</table>

Source: Authors, on the basis of UNCTAD (2015).
The European Union and the United States are the most important trading partners for each other. In 2013 the US was the main trading partner for the European Union in terms of total merchandise trade (sum of exports and imports) followed by China, Russia and Switzerland. At the same time, the European Union was the largest trading partner of the US followed by Canada, China and Mexico. In 2013, the United States represented 14.2% of extra-EU trade while the share of the European Union in total US trade was at 16.9% (Table 4).

The value of EU merchandise trade with the US increased from EUR 385.6 billion in 2003 to EUR 484.4 billion in 2013 (European Commission, 2015a). However, at the same time, the share of the US in extra-EU trade fell from 16.9% to 11.7% in EU imports and from 26.4% to 16.6% in EU exports. Over that time, the EU’s share in US merchandise exports decreased from 21.4% to 16.7%, while the EU’s share in US merchandise imports fell from 20.1% to 17.0% (Figures 1-2).

The European Union records a trade surplus with the United States. In 2003-2013, it ranged from EUR 359 billion to EUR 500 billion annually.

In 2013, among the top product groups in EU’s merchandise exports to the US were: machinery and appliances (24.8%), products of the chemical or allied industries (20.3%), transport equipment (16.9), optical and photographic instruments, etc. (7.4%) and mineral products (6.1%). Main EU’s imports from the US included: machinery and appliances (26.4%), products of the chemical or allied industries (20.0%), transport equipment (10.7), mineral products (10.6%) and photographic instruments, etc. (9.9%) (European Commission, 2015a).

The EU and the US are also each other’s primary investment partners. In 2012, 63% of US FDI went to the EU, and 44% of FDI inflows to the US came from the EU (Ash, 2013). In 2012, the United States accounted for one third of total FDI inflows to the European Union from extra-EU. In
2010–2013, the ratio averaged 59%. In 2012, one fourth of EU FDI outflows to the rest of the world went to the US; in 2010–2013 — 32% (Eurostat, 2014). At the end of 2013, the EU held EUR 4,900 billion of FDI stock in the rest of the world, of which EUR 1,686 billion or 34% in the US. At the same time, the United States accounted for 44% (EUR 1,652 billion) of total FDI stock held by the rest of the world in the European Union (Eurostat, 2015). Total US investment in the European Union is three times higher than in all of Asia. EU investment in the United States is around eight times the amount of EU investment in China and India together (European Commission, 2015b).

US FDI in the European Union is mainly in the nonbank holding companies, finance/insurance, and manufacturing sectors. EU FDI in the United States is concentrated mostly in the manufacturing, finance/insurance, banking, wholesale trade, and information sectors (Office of the United States Trade Representative, 2015).

The need to create a free trade area covering the EU and the US has been discussed on both sides of the Atlantic since the early 1990s. It has been expected that the removal of barriers to trade and investment between the EU and the US will lead to more dynamic economic development, will contribute to the decline in unemployment and will increase prosperity in the contracting countries. The first negotiations on TTIP were taken in 1995 and further in 1998 and 2007. They all, however, ended in failure. The agreement on the liberalization of trade in goods and services between the EU and the United States has not been signed mainly due to the conflicting positions of the negotiating parties on agricultural trade and sanitary and health insurance standards (Wódka, 2013).

Despite setbacks in negotiations, at the EU-US Summit on November 28, 2011, the Transatlantic Economic Council (TEC) was directed to establish a High-Level Working Group on Jobs and Growth. It was headed by Ron Kirk – US Representative for trade and Karel de Gucht – EU Trade Commissioner. Its task was to identify opportunities to improve bilateral trade and investment relations between the EU and the US. For this purpose, it established cooperation and held consultations with all stakeholders, including the major European and American business associations. In February 2013, the Working Group published the final report outlining the future agreement on the EU-US trade.

In February 2013, in a joint declaration, President Barack Obama and President of the European Commission J.M. Barroso strongly supported the creation of a free trade area between the two economic powers. However, at the request of France, it was decided to exclude from negotiations issues related to music and film production.

Even before the negotiations began in Washington, D.C., in July 2013, the European Commission had requested the Centre for Economic Policy Research (CEPR) to prepare a report on the economic, social and environmental effects of a transatlantic agreement. Using econometric methods, CEPR estimated that the elimination of tariffs and non-tariff barriers and the liberalization of services and public procurement in relations between the EU and the US would lead to an increase in the EU GDP by EUR 119 billion and in the US GDP by EUR 95 billion EUR per year by 2017. Such macroeconomic outcomes would translate to an extra 545 EUR in disposable income each
year for a four-person household in the EU, on average, and 655 EUR for a household in the US (CEPR, 2013). This would be primarily the result of the increased trade between the two negotiating parties. It is expected that as a result of a free trade agreement EU’s exports to the US would increase by 28% and additional 2.5 million jobs would be created.

At least three main reasons to negotiate a TTIP/TAFTA agreement can be identified (Kobza, 2013):

1. a decrease in the importance of the EU and the US in the global economy and the growing importance of emerging economies, especially China’s centrally controlled economy; it can be opposed by the creation of a strong economic bloc based on the principles of a free market including the states on both sides of the Atlantic.

2. the global financial and economic crisis, which badly hit the US and the European Union, and which has forced politicians and economists to look for ways to boost growth and reduce high unemployment;

3. growing disillusionment with the multilateral negotiations within the World Trade Organisation (Doha Round), which have not led the developed countries to the resignation from subsidizing agricultural commodities, fuller liberalization of services and harmonization of regulations, which still hinders international trade in goods and services;

4. a decrease in the importance of the EU and the US in the global economy and the growing importance of emerging economies, especially China’s centrally controlled economy; it can be opposed by the creation of a strong economic bloc based on the principles of a free market including the states on both sides of the Atlantic.

As a result of the global economic and financial crisis, GDP growth rate in the EU fell from 3.1% in 2007 to 0.5% in 2008, and in 2009 there was a decline in GDP of 4.4%. In 2010-2013, the EU GDP changed respectively: 2.1%, 1.8%, -0.4% and 0.1%. At the same time, there was an increase in the EU unemployment rate from 6.9% in 2008 to 8.9% in 2009 and 9.6% in 2010-2011 (World Bank, 2015). Meanwhile, the US GDP growth rate fell from 1.8% in 2007 to -0.3% in 2008 and -2.8% in 2009. The recession in the United States was overcome in subsequent years, resulting in an increase in GDP in 2010-2013 by 2.5%, 1.6%, 2.3% and 2.2%, respectively. Simultaneously, the US unemployment rate rose from 5.8% in 2008 to 9.3% in 2009 and 9.6% in 2010, but in the following years it began to decline, and in 2013 it was at 7.4% (World Bank, 2015). As the economic growth in the emerging market economies was higher than in the EU and the US, the shares of the two latter economies in the world’s GDP was decreasing (see point ‘Declining role of the EU and the US in the global economy’).

Difficulties in reaching a multilateral agreement under the WTO on the elimination of trade restrictions in agriculture and services, mainly the reduction of export subsidies and other forms of support for exports that distort international trade flows, have also argued for starting negotiations on TTIP/TAFTA At the peak of the global crisis in 2009 and in subsequent years, instead of further liberalization of international trade in goods and services, intensified protectionist tendencies directed to protect many national economies against the crisis in the global economy were observed (Bussière, et al., 2010; Henn & McDonald, 2011). In this situation, there has been a retreat from the liberalization of international trade in the global scale and solutions at the regional level have been sought. The Comprehensive Economic and Trade Agreement (CETA), which began to be negotiated in May 2009 and was successfully completed in 2014 (Consolidated CETA Text, 2014), is an example of the above mentioned.

The negotiations on TTIP/TAFTA began on 17 June 2013. For the EU, they are carried out by the European Commission under the leadership of Trade Commissioner. Until the end of 2014, there had been seven rounds of negotiations. The main objective of TTIP/TAFTA is to eliminate regulatory barriers in economic relations between the EU and the US, that is, duties, non-tariff barriers and restrictions on investment, while maintaining for each party the appropriate level of protection of consumers and their health, safety and environmental protection. The results of the talks will have to be approved by the European Parliament, and the final agreement will be subject to ratification by all member states of the EU and the US.

Each of the parties has set out its objectives and priorities. For the US, the most important issues have been: the liberalization of trade in agricultural, industrial, and consumer goods, access to the EU mar-
ket for US textile and clothing, and – in the area of intellectual property rights – easing some standards on geographical indications of goods. In contrast, less important for the Americans are those parts of the agreement which relate to social issues, employment and labour standards (Kobza, 2013).

According to the "Directives for the negotiation on a comprehensive trade and investment agreement, called the transatlantic trade and investment partnership" (Council of the European Union, 2013), important issues for the EU have been especially: elimination of all duties on bilateral trade in a short time frame (except duties on the most sensitive products) and the removal of non-tariff barriers. The EU would also like to see the full liberalization of current payments and capital flows, mutual recognition of professional qualifications, legal protection for EU investors in the US, as well as improved access to public procurement markets in the US. Among very important issues in the economic relations between the EU and the US is finding a way to close the gap in the competitiveness of energy-intensive industries resulting from differences in energy rates which in the United States are three times lower than in the EU. In this connection, the EU proposes the possibility of permanent export of natural gas and crude oil from the US to the EU. Until the end of 2014, there had been seven sessions of negotiations, alternately in the US and Brussels. Negotiations have been conducted simultaneously in the three broad areas of:

- further opening up to mutual flows of goods, services and capital,

- harmonization of standards which relate to conducting business in the EU member countries and the US,

- protection of intellectual property rights and the environment.

The first five sessions aimed at identifying areas in which negotiators should move. From the sixth round, the parties started to formulate the relevant text of the agreement for an already negotiated arrangements. The negotiations should be completed and the agreement signed at the end of 2015. The immediate effect of the agreement on the abolition of customs duties and the majority of non-tariff barriers to trade between the EU and the US will be the establishment of a transatlantic free trade area. Parties to the agreement will remain autonomous duties and other restrictions on trade with third countries. As a result of the trade creation and trade diversion effects, an increase in the volume of bilateral trade between the parties of a transatlantic free trade agreement should be observed (see: Urate & Okab, 2010; Koo, Kennedy & Skripnitchenko, 2006). The harmonization of standards in the field of environmental protection, health care, protection of investment and intellectual property rights and the mutual recognition of technical standards should also boost the EU-US economic cooperation.

Before the negotiations on the creation of a transatlantic free trade area started, more than 50% of agricultural commodities and about 30% of industrial goods in EU exports to the US were subject to customs duties. Duties were also applied to American exports to the EU countries. Average tariff in the EU's imports of agricultural commodities from the US was 5.7% and in imports of industrial goods 1.4%. For goods flowing in the opposite direction, duty rates were at a similar level. The average tariff level was not so high, but there were a lot of goods which were subject to much higher duties. In the case of the EU, the highest duty rates were applied to dairy products (605%) and tobacco (165%). The EU's import tariffs were also relatively high for footwear (17%), consumer electronics (14%), household goods (14%), clothing (12%) and cars (10%) (WTO, ITC & UNCTAD, 2013). Abolition of customs duties in mutual trade would undoubtedly contribute to a decline in prices of imported goods, an increase in the volume of imports and in the range of products offered on both the EU and US markets.

Non-tariff barriers that prevent exports and imports of certain goods, reduce the volume of trade or raise the cost of exports and imports by several tens of percent are an even greater problem than customs duties in trade between the EU and the US. For example, the US apply quantitative
quotas and tariff rate quotas, import and export bans, variable levies and other non-tariff barriers (Stefaniak, 2014). Additionally, there are many obstacles to trade in services. For example, in the United States, transport of people and goods between the two airports or water ports situated on the territory of the US is prohibited for foreign carriers. Furthermore, the provision of professional services in the US by experts from the EU: engineers, architects, accountants, lawyers, etc., is still difficult because of the unsolved problem of the recognition of professional qualifications. The diversity of standards for the safety of people and animals, and the environment, as well as the diversity of other technical standards and the differentiated approach of both parties to the certification and obtaining authorization to sell goods have also a very negative impact on trade between the two sides of the Atlantic. The automobile market is a clear example of how the different safety standards in the EU and the US may hinder mutual trade. American cars are hardly ever imported by the EU, and European cars are purchased by the Americans only to a limited extent. The main additional cost which car importers must bear is not the cost of transportation from the US to Europe or in the opposite direction, but the need to adapt a vehicle to the applicable national safety standards. A lot of details on the car, e.g. colour and lighting set-up, have to be changed so that it could be registered in the country.

Reducing standards-related trade barriers is essential for the intensification of transatlantic economic cooperation. Some successes in TTIP negotiations can be expected in unification of standards in the automotive, aerospace and chemical industries. Harmonization of standards in the agricultural sector is less hopeful (Beary, 2013). Difficulties with the harmonization of the European and American standards result from different cultures of standardization in the EU and the US. While the EU standardization culture is conservative and preventive, the US is more liberal and is characterized by a more easy acceptance of goods for sale and a focus on possible ex post damage compensation. Therefore, achieving full harmonization of standards in trade relations between the EU and the US would be impossible, but it is feasible to reach an agreement on mutual recognition of standards (Kobza, 2013). The first step is to eliminate unnecessary double technical and sanitary regulations, which make goods for foreign buyers even 20% more expensive. But in any case, the EU intends to prevent the lowering of standards related to food production, protection of consumers and the environment. Subsidies for farmers are the next barrier to trade between the US and the EU which is very difficult to overcome. For many years, both the Americans and Europeans supported indigenous farmers by grants to make their products more competitive on the internal and international markets. Both the EU and the US use high tariffs on imported agricultural and food products, e.g. in the US the tariff on dairy products is 139%, on meat – 30%, on drinks more than 20%, while imports of apples and different kinds of cheese is completely prohibited. The equally difficult subject which requires a compromise in the negotiations between the EU and the United States is production of genetically modified corn and soybeans and meat containing hormones in the US. Such food is acceptable for the American consumers, but not for the Europeans. Opening the American public procurement market to EU companies could also intensify cooperation between the EU and the US. Currently, the participation of European companies in American public tenders is difficult because of the requirement of the US contribution to the foreign offer, which virtually eliminates the Europeans from the public procurement market in the US.

Assumptions regarding TTIP also cover the issue of foreign direct investment. As it has been presented, FDI plays a major role in the economic relations between the EU and the US. Further increase in FDI flows is desirable due to their importance for the development of intra-industry trade, employment growth and improvement in the competitive positions of the EU and the US in the global economy. From this point of view, it is necessary to eliminate unnecessary bureaucratic obstacles for investors to access the US and the EU markets.
The issues of legal protection of investment and the resolution of disagreements between an investor and a host country are the most controversial in the field of FDI in negotiations on TTIP. The ability of foreign investors to sue the state, if they recognize that the decisions of the state authorities taken in the public interest would have a negative impact on investors’ profits is especially criticized. Such actions would simply lead to the settlement of disputes by tribunals operating outside the public court system, thereby undermining the EU and national legal systems (Stowarzyszenie “Obywatele Obywatelom”, 2014). This mechanism is called “investor state dispute settlement” (ISDS). Costs of lawsuits against the state would always have to be borne by the government defending the interests of its citizens (an average of US$ 8 million for a trial), and also in the event of losing the case the regulations binding the hands of a foreign investor would have to be removed (Wallach, 2014).

Investment protection is always an important part of a system of economic relations among states. Investments, which are an important source of innovation and employment growth, if they are to be made abroad, must be protected against the lawlessness of host country institutions. Therefore, provisions on investment protection and the possibility for investors to appeal to international arbitration courts should be included in the agreement on TTIP. These regulations, however, should not be abused in the interests of large trading or industrial corporations, but also should not discriminate against foreign investors and be preferential for domestic ones.

Large companies and firms with significant growth potential and strong competitive positions in the market which, as a result of the elimination of barriers in the EU-US trade, will be able to increase their exports and reduce costs of operation are the biggest proponents of the Transatlantic Free Trade Area. On the other hand, among the biggest critics of TTIP are trade unions, environmentalists and representatives of international organizations who care about the health of people and animals and strive for sustainable economic development. TTIP critics have questioned the results of econometric forecasts, according to which, the Atlantic partnership will lead to an accelerated growth and a decline in unemployment in the EU and the US. They cite the example of NAFTA where the prediction that it would lead to the creation of 200 thousand new jobs in the United States did not come true. In fact, the balance of jobs created as a result of growth in exports and lost as a result of strong competition from imported goods was negative and is estimated to be nearly one million jobs (Gómez Calvo, 2014).

Representatives of trade unions, environmental and consumers organizations are afraid of lowering the European standards in terms of employment and ecology, production of food, chemicals and protection of electronic databases, which are higher in the EU than in the US. Representatives of the world of work stress that in the past the growth of wages and employment did not keep pace with the dynamic growth of trade in goods and capital flows between the EU and the US. A large part of the trade between the EU and the US is the trade within large corporations (Lakatos & Fukui, 2013), whose position will be strengthened as a result of launching TTIP to the detriment of employees. In the US, in the private sector, in 2012, due to the poor climate for trade unions, only 6.6% of employees belonged to such institutions. In many American companies in which there are no trade unions wages are much lower compared to firms with trade unions. It encourages investors from Europe, where employees have greater rights, to relocate production to the US. However, the authorities of the EU countries ensure that TTIP will not adversely affect workers in companies because such issues as labor law, co-determination of employees in enterprises and tariff autonomy are not the subject of TTIP negotiations. However, doubts of the world of work, which demands that the negotiated agreement contained provisions for the protection of workers’ rights, have not been dispelled (Wötzel, 2014).
Consumers fear that TTIP will open the European market for genetically modified American food products and hormone-treated US meat. The approach to these issues is radically different in the United States and the EU (Krämer, 2013), and therefore it is considered to exclude these issues from the TTIP agreement. Representatives of the EU ensure that in any case TTIP will lead to the deterioration of the European standards in the field of health care, including those relating to GMOs and environmental protection.

Concerns about TTIP also relate to municipal services. The inclusion of this sector in the agreement would open the way for its privatization and marketization in the EU countries, which probably would involve higher prices of municipal services and deterioration in access to these services for people with low income.

If the agreement on TTIP is concluded and enter into force, the Atlantic economic and political power will be created. It will be able to face the challenges arising from the growing economic and political powers of China, India and Brazil. The history of international economic and political relations shows that economic cooperation between the countries may strengthen political ties between them (Carnegie, 2013; Massoud & Magee, 2009; Polachek, 1997). It can therefore be expected that the emergence of the transatlantic free trade area will impede the process of reducing economic and political presence of the United States in Europe which have become more involved in the Pacific region.

The European Union, which due to TTIP will integrate more deeply with the United States, will be able to play a greater role in global politics and economics. Therefore, it would be more effective in preventing international conflicts and influencing the direction of social and political processes in the world. The issue which is particularly important for the EU is the possibility of importing US shale gas and oil even though they are not cheaper than gas and oil purchased from Russia (since the first energy crisis in the first half of the 1970s, exports of oil have been banned in the US). However, it would make the EU independent from Russian gas and oil and undermine Russia’s imperial policy.

TTIP may also have a positive impact on the conclusion of trade negotiations in the WTO Doha Round. The EU and the US would have experience in finding solutions acceptable to all trading partners in the field of international trade in such sensitive goods as agricultural products, textiles, intellectual property rights, etc. Difficulties in reaching a compromise in this area of international trade prevent a successful conclusion of the Doha Round (Bundesverband Öffentliche Dienstleistungen, 2014).

The analysis conducted by the authors of this study shows that the project to create TTIP / TAFTA should be considered worth implementing, both for the EU and the US. The proposed agreement goes beyond a free trade area. In addition to the liberalization of trade in goods and services, it will cover such areas as capital flows, protection of foreign investors, harmonization of standards which relate to conducting business, protection of intellectual property rights and the environment, etc. History shows that free trade has always been conducive to economic growth and protectionism has gone hand in hand with economic and social stagnation (Ben-David & Loewy, 1998; Wacziarg & Welch, 2008; Salvatore, 1993). Also, the establishment of a free trade area covering the EU and the US, the core idea of which is to reduce tariffs and simplify regulations and standards, can contribute to economic recovery on both sides of the Atlantic. The United States overcame the global economic and financial crisis earlier than the EU. GDP growth rate in the US has already exceeded 2%, while the EU countries are still stuck in stagnation. Deeper integration of the two economic powers separated by the Atlantic Ocean would allow the EU to benefit from the economic recovery in the United States. The advantages of the US are labour costs in the industrial sector which are 25% lower than
the average for the EU and significantly lower energy costs, which, as a result of the American shale gas revolution, can be further reduced. In contrast, the EU has the advantage of high technology and consumer protection standards. The combination of lower production costs in the US with the highest European technological potential is a prerequisite for a production of excellent products at competitive prices and their sales in international markets, which in turn could stop the trend of declining role of the US and the EU in the global trade. TTIP would also strengthen transatlantic political ties and make the voice of the EU and the US more powerful in the process of searching solutions of such painful problems of the modern world as intensification of terrorism and the nationalist movements, global warming and environmental pollution, rising unemployment, threat to peace from the so-called rogue states and the lack of respect for democracy and human rights in many countries.

References


---

**About the authors**

**EUGENIUSZ GOSTOMSKI**  
Prof. habil. dr.  
Economics and Finance (science field), Institute of International Business, University of Gdańsk  
Address  
Armii Krajowej 119/121, 81-824 Sopot, Poland  
Tel. +48 58 5231274  
E-mail: egostomski@wp.pl

**TOMASZ MICHAŁOWSKI**  
Dr.  
Economics and Finance (science field), Institute of International Business, University of Gdańsk  
Address  
Armii Krajowej 119/121, 81-824 Sopot, Poland  
Tel. +48 58 5231273  
E-mail: t.michalowski@ug.edu.pl