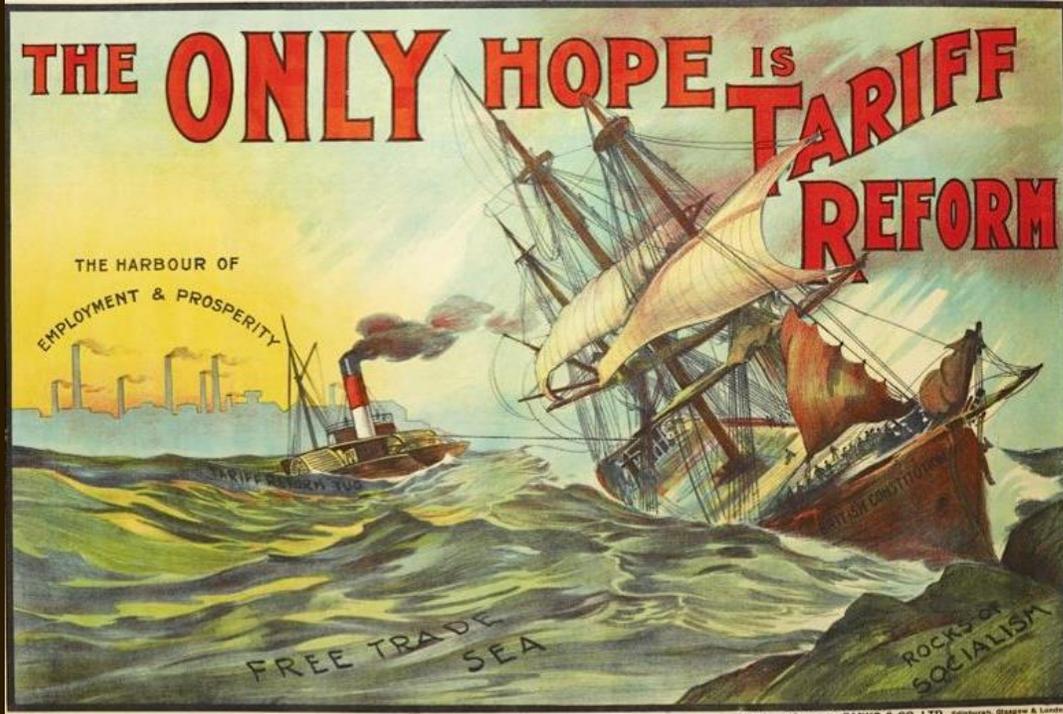


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VIENNA
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Evaluating Trade Treaties

*Lessons
from TTIP*

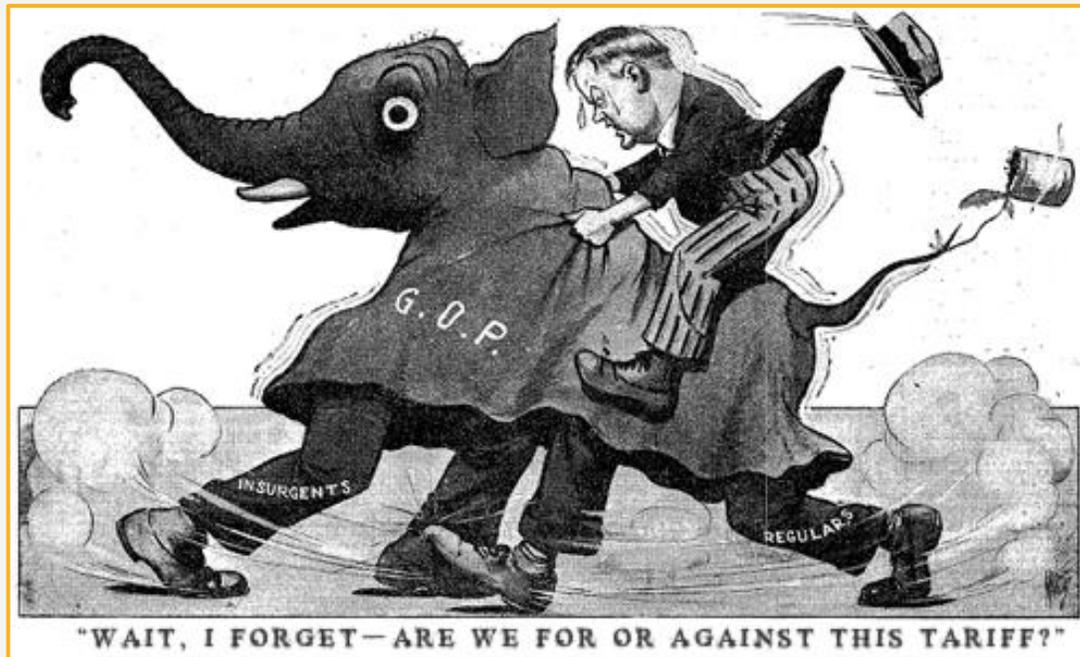


The Shrinking Gains from Trade

- In the past (ca. 1980 - 1990) there were important barriers to world trade
- Economic analyses projected huge gains from liberalization – *hundreds of billions of dollars!*
- Then trade was liberalized
 - China joined the WTO
 - Textile quotas under the Multi-Fiber Agreement were eliminated
 - EU expanded to 28 members
 - NAFTA, CAFTA, etc. liberalized Western Hemisphere trade
- If benefits of liberalization are important, I hope you enjoyed them
 - They have already happened
 - Krugman: liberalization may account for 10% of world growth since 1990
- No further potential – no major trade barriers left to remove?
 - But the rhetoric lives on...



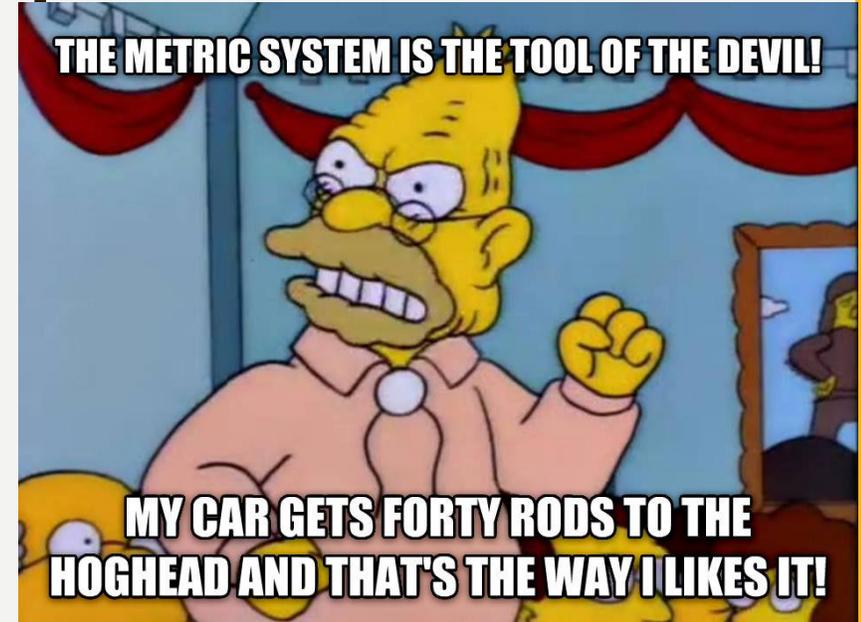
Pictures of Opposition



TRUMP: I'LL TAKE BACK JOBS FROM CHINA; MEX

What could TTIP Accomplish?

- Not tariff reduction, except in isolated cases
 - Average tariffs are under 3% on US-EU trade in both directions
- Not removal of technical barriers *in items currently traded*
 - Often claimed, but never shown to be important
 - At most, this requires technical conferences in selected industries
 - The biggest technical barrier: US refusal to use metric system
 - Not addressed by TTIP (or anyone else)
- The real goal: *change rules about what can be produced and traded*
 - Requires changes to existing regulations in Europe and America



How to Exaggerate TTIP's Role: From Invisible Hand to Invisible Benefits

1. Assume that the “invisible hand” guarantees full employment, before and after any policy change
 - A key assumption behind “computable general equilibrium” (CGE) models
 - Capaldo: Europe gains from TTIP if full employment is automatic, but loses in a more realistic model with variable employment
2. Estimate the impact of “non-tariff barriers” (regulations) on trade
 - No standard methods exist; ad hoc guesses used by consulting firms
3. **Ignore the benefits that motivate and justify regulations**
 - Regulations are adopted to protect health, environment, social welfare, etc.
 - Rules with costs and no benefits would be a bad idea
 - But there are no such rules

Benefits of Regulation: Overview

- Regulations protect health, safety, natural environment, social welfare, labor standards, privacy, etc.
- Economic theory: markets only lead to ideal outcomes when all “externalities” (e.g. pollution) are priced, or taxed, to reflect damages they cause to others
- Preventable problems cause billions of euros of losses
 - Mad cow disease
 - Cleanup of asbestos, or PCBs
 - Climate damages – uncertain but huge
- Costs of not yet meeting EU standards for 2020 = €200 - 300 billion per year (DG Environment, 2011)
- Projected costs of EU air pollution in 2025 = €218 - 742 billion per year, one-fourth of it preventable (EMRC, 2014)
- EU burden of disease due to endocrine-disrupting chemicals = €157 billion per year (academic study, 2015)
- Net job impacts of current regulations are close to zero (US research)



Balancing TTIP vs. EU Regulations

- Estimated benefits of TTIP to EU = €70 – 120 billion per year
 - Assumes full employment, and guesses about impacts of “non-tariff barriers”
- Benefits of regulations at risk under TTIP are much greater
- Just two areas – REACH and renewable energy standards – are worth almost as much as the claimed benefits of TTIP
 - Total = €46 – 110 billion per year (see next three slides)
- Many other areas of regulation are also at risk from TTIP
- Therefore, the total benefit of regulations at risk is much greater than the claimed benefits of TTIP



REACH

- REACH requires manufacturers and importers of chemicals to submit information on safety, and restricts use of substances that do not meet standards
- The much weaker US chemicals law, TSCA, places burden of proof on government regulators; almost no chemicals have ever been restricted under TSCA
- American, European chemical industries have proposed to use TTIP to weaken REACH
- Annual benefits of REACH = €10.8 – 47.0 billion

Benefits of REACH	Low estimate	High estimate
Health improvements	6.9	34.4
Water purification, sludge disposal	3.4	10.9
Avoided toxic cleanup	0.5	1.7
TOTAL	10.8	47.0



Renewable Energy

- EU promotes renewable energy with GHG and renewable energy targets, feed-in tariffs, and other policies
 - 2013: renewable energy = 25% of EU electricity; wind and solar = 10%
- US standards are stronger on non-carbon air pollution, but weaker on carbon emissions and renewable energy
 - 2013: renewable energy = 13% of US electricity; wind and solar = 4%
- Benefits of EU renewable energy, 2013:
 - Avoided 388 million t CO₂-equivalent emissions
 - Avoided 54.3 million t oil-equivalent coal combustion
 - Created more than 1.2 million jobs
- Renewables policies could be challenged under TTIP
 - Germany has already faced challenges to domestic energy policy under a treaty that protects foreign investors



Valuing EU Renewable Energy

- Benefits of EU renewable energy include
 - Avoided carbon emissions: €35 – 100 /t CO₂-eq (short-term and mid-term EC projections)
 - Avoided coal combustion: health effects worth €0.0585 per kwh of electricity (HEAL, 2013)
 - Social value of new jobs = 19.0% - 24.7% of earnings (recent US cost-benefit studies)
- Total value = €35.5 – 62.8 billion (2014 euros)

Benefits of renewables	Low estimate	High estimate
Avoided GHG emissions	13.6	38.8
Avoided coal pollution	14.8	14.8
Job creation	7.1	9.2
TOTAL	35.5	62.8



Conclusion:

Why Harmonize?

- Regulations are not arbitrary bureaucratic obstacles to trade
 - They are democratically adopted limits on what can be sold, and how it can be produced
 - Policies that correct market failures can make everyone better off
- Different countries reach different decisions about regulations
 - Harmonization is valuable to some industries, but not the public
- US limited smoking in public, before most of Europe
 - Should we have waited for Europe before acting?
 - Harmonization would have been good for tobacco companies, bad for air-breathing citizens
- Europe has much more sensible limits on gun ownership and use
 - Should you have waited for all of America to agree with your rules?
 - Harmonization would be great for gun companies, not for victims
- Public policy requires leadership, not harmonizing downward

