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## Barriers in the Atlantic Economic Area

From TAFTA to a free market: new transatlantic trade initiatives



JOSEF BRAML is editor-in-chief of the German Council on Foreign Relations' yearbook.

Claudia Schmucker and Josef Braml | **During its current term as EU Council president, Germany has been trying hard to promote transatlantic economic integration. But Washington—and some EU countries—have reacted hesitantly. For them, the primary goal is closing the Doha Round. A transatlantic free trade zone remains a long-term project.**

Seldom in the recent history of transatlantic trade negotiations has there been as much conceptual confusion as during the 2007 German EU Council presidency. While at first there was talk of a transatlantic free trade agreement, called TAFTA, in the course of early 2007 the goal became a barrier-free market between the two trade partners. What, concretely, does this mean for transatlantic trade, and what are the alternatives available to policymakers?

The 1990s were distinguished by numerous transatlantic initiatives, such as the Transatlantic Declaration (1990), the New Transatlantic Agenda (1995), and the Transatlantic Economic Partnership (1998). Most recently, in 2005, the so-called EU-US Economic Initiative was called into existence at the EU-US summit meeting in Washington. The purpose of the initiative was the gradual elimination of the barriers in the transatlantic economic area. In consultation with the private sector and civil society, the 2005 initiative underscored the following core areas of closer transatlantic cooperation: promoting regulatory and standards cooperation; stimulating open and competitive capital markets; spurring innovation and the development of technology; protection of intellectual property rights; investment; competition policy and enforcement; public procurement; and services.

The issue of divergences in regulation was considered by both sides to be the most important obstacle to transatlantic trade. A forum was therefore established between the transatlantic regulatory agencies, called the US-EU high-level Regulatory Cooperation Forum, with the goal of exchanging best practices



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and suggesting new subjects for transatlantic regulatory cooperation. The group agreed to present an annual progress report at the EU-US summit meeting. At the 2006 summit in Vienna, actors resolved to extend the initiative to additional areas.

The problem facing this agreement, as with previous agreements, is different political interests on both sides of the Atlantic in promoting integration in difficult areas. The United States, for example, is mainly interested in the strong protection of intellectual property rights whereas in discussions on regulatory issues US representatives like to point out that individual US states possess extensive powers and that numerous regulatory agencies are not subject to federal regulation. The lack of concrete results in this central area, however, has led to louder calls for visionary projects such as TAFTA or a transatlantic market.

### Visions for the Future—TAFTA

The Transatlantic Free Trade Area is a seemingly visionary concept that regularly surfaces in political discussions and the press. The idea is not new. In 1995 then-German Foreign Minister Klaus Kinkel proposed a transatlantic free trade agreement. In 1998 the initiative was again taken up by then-EU Trade Commissioner Sir Leon Brittan. In both cases, however, it failed mainly because of the United States' lack of political interest, although France was also reluctant. More recently, TAFTA has been placed on the agenda by a member of the German Bundestag, Matthias Wissmann, and European parliamentarians Elmar Brok and Erika Mann. They hope to provide a “new vision” and a sustainable basis for transatlantic trade relations. Common values are to be established through TAFTA and a treaty superstructure created. Advocates often point to the increasing dominance of Asian states, especially China and India. The economic argument for TAFTA is that the European Union and the United States have already concluded numerous free trade agreements with other parties, but not with one another, despite the fact that they are respectively each other's most important trading partner.

The real barriers to transatlantic free trade are regulations and standards.

Free trade agreements, by definition, entail the elimination of tariff barriers and are considered the minimum level of economic integration. With the exception of high-tariff areas such as agriculture and textiles, however, the tariff barriers in transatlantic trade, averaging four percent, are already quite low. The real constraints are found in the area of regulations and standards. Thus the advocates of TAFTA—though one would not suspect it from the name—are not interested in a pure free trade zone, but in a comprehensive agreement that, in addition to the removal of tariff barriers, would include technical standards, the integration of financial and capital markets, access to stock markets and their oversight, questions of antitrust and competition law, investment, environment, and energy policy, among others areas.

Long and complicated negotiations would be necessary to implement this plan. One must ask how progress could be possible on the bilateral level in the difficult areas of agriculture and services when the two parties failed to achieve

A union of the two largest trading partners in a free trade zone would be viewed negatively by third states.

it in the Doha Round of the WTO. There is also a real danger that a union of the two largest trading partners in a comprehensive free trade zone would be viewed negatively by third states in Asia and Latin America and could be interpreted as a retreat from the Doha Round. The German State Secretary from the Federal Ministry of Economics and Technology, Bernd Pfaffenbach, thus described the initiative as a “kiss of death” for the Doha Round. EU Trade Commissioner Peter Mandelson also reacted negatively to the initiative. He emphasized that TAFTA would send the wrong signal to the rest of the world and warned that no other EU country would support the idea. Mandelson later put this harsh assessment into perspective, explaining that the existing EU-US Economic Initiative could form a basis for the long-term idea of a free trade zone should both sides decide to pursue it in the future.

### A Barrier-free Transatlantic Market

For these reasons the acronym TAFTA is now a taboo among experts. As an alternative, advocates now speak of a barrier-free transatlantic market. This project has been supported by Chancellor Angela Merkel. At the beginning of the German EU presidency, Merkel traveled to Washington to present her idea. In mid-January 2007, in a speech before the European Parliament on the goals of Germany's presidency, she declared, “At the EU-US summit we want to discuss the intensification of the transatlantic economic partnership... In the interests of our global competitiveness we have to continue removing trade barriers, for example in patent law, industrial standards, or in access to stock markets. I am firmly convinced that a common transatlantic market is in Europe's own best interests.”

At a summit in Washington on April 30, 2007, the European Union and the United States signed the Framework for Advancing Transatlantic Economic Integration. The focus of the framework agreement is the elimination of non-tariff trade barriers posed by regulations, for example norms and standards. In addition, the two sides agreed on so-called Lighthouse Priority Projects. These projects include: (1) the enhanced protection of intellectual property rights, (2) the development of common standards regarding trade security, (3) the mutual recognition of financial market regulations, (4) enhanced cooperation in innovation policies and technologies, and (5) the establishment of a regular dialog on investment barriers. In a first step, running until 2009, both sides intend to agree on commonly accepted accounting standards. In a second step, which is supposed to last until 2015, other areas should be included through mutual recognition, the harmonization of norms and standards, or the development of common rules in new fields. In this context, a permanent high-level Transatlantic Economic Council was established to oversee the framework agreement projects, set goals and deadlines, as well as issue semi-annual progress reports. EU Commissioner Günter Verheugen will be the chair of the Council together with Allan Hubbard, Assistant to the President for Economic Policy and Director of the National Economic Council. The agreement's goal is to set up structures similar to an internal

market. Thus the transatlantic market would exclusively include so-called “WTO plus” issues that are not dealt with as part of the Doha Round and would therefore avoid competition with the World Trade Organization.

From an economic point of view, these goals are welcome. However, one must ask why the United States would be more interested in implementing a barrier free transatlantic market than it has been in the current Economic Initiative, which deals with similar issues. The difficulties in the harmonization or mutual recognition of norms and standards remain the same. Without energetic political support on both sides of the Atlantic, such a comprehensive project is doomed to fail.

### What is to be Done?

Germany has been attempting, within the scope of its EU presidency, to promote further transatlantic economic integration. This intention is reasonable, but it should be viewed as a long-term project. It is crucial that political interest in actually removing trade and investment barriers exists on both sides. This is not the case at present and therefore chances are that this initiative will also produce a meager outcome.

In order to facilitate transatlantic trade and investment it is crucial to make real progress, particularly on regulatory issues. Through small advances it may be possible to reach the longer-term goal of a barrier-free transatlantic market. Chancellor Merkel provided a clear vision for this at the April 30 summit: “So I am confident that with the Economic Council we have set up, we will be able to make progress on very concrete projects, for example, mutual recognition of standards and other areas. It is, as I see it, a significant step forward.” We can only hope that we do not lose sight of this vision once the summit is over and we are back dealing with day-to-day issues.