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At Transatlantic Trade and Investment Partnership
13th Round Negotiation – Stakeholder Forum
April 28, 2016, New York Hilton Hotel

Services and TTIP: Impasse Threatens Completion of Deal

The TTIP was launched with grandiose objectives and high flown rhetoric based on little real appreciation of the problems that would have to be overcome.

Services - the dominant sector of the global economy - got almost no attention in the Doha Round, but in bilateral, plurilateral and regional agreements services have at last been recognized as the dominant driver of global economic growth.

The good news is that services have been given equal footing with agriculture and goods in TTIP. The bad news is that the services negotiations have swerved off the road and are mired in mud.

In the US recent agreement with Korea (KORUS), and in the Trans Pacific Partnership (TPP) rules and commitments to liberalize services trade and investment are substantially advanced.

This is not the case in the TTIP.

I am not interested in painting the US as the good guy and the EU as the bad one.

What is interesting is that the US made a very good initial TTIP offer based on its agreement with Korea. This was consistent with TTIP's stated objective that each party would start the negotiation with an offer reflecting its best offer.

The US thus expected that the EU would make an ambitious offer as well, at least reflecting its Korea offer but also its commitments in its agreement with Canada in the CETA (Comprehensive Economic and Trade Agreement).

This was not the case. The EU initially made a very weak offer then improved it somewhat. But it still is unacceptably subpar, so bad as not even to be a starting point for a serious negotiation. It is certainly not as good as its commitments in CETA.

The EU TTIP offer fully excludes I understand, audio visual services, private health care, private education (like language schools or adult education, or computer software education), credit reporting services, executive search and personnel placement services, and security services.

Sectors that are only partially included, as I understand it, are: legal, energy, environmental, distribution and transportation services (where reservations are taken for air, road, rail, maritime and space transport).

Another major failing of the EU offer is exclusion of coverage for "new" services, and for public utilities. Accepting these carve outs would mean EU states could take any restrictive measure with respect to entire sectors and subsectors. For services this exclusion has particular significance because new services come on stream often.

To explain its bad TTIP offer (not even as good as CETA), EU officials respond that Canada was willing to make compensatory service sector offers, that include for example maritime services.

This takes us to the nub of any negotiation on services with Europe. For decades Europe has insisted that cultural services must be off the table. Equally, the US has insisted that maritime services must be excluded from liberalization – a convenient tit for tat that has allowed negotiations to proceed in other areas.

There is no economic justification for either position.

In maritime services for example the main issue is cabotage, that is, transportation of goods between ports in the US. This exclusion has persisted for decades, based on the political strength of companies and labor unions providing the services. It has become a reflex habit for the US to exclude these services from liberalization, just as the European cultural exclusion has. (Most US shipping companies are foreign owned, so foreign companies can operate US shipping.)

Interestingly an unnamed senior European official has just been reported ["Commission Expects Progress, But No Breakthroughs at TTIP Round", Inside US Trade, April 26] as saying that in maritime services there are a number of possible concessions "that do not touch on US sensitivities". It would be very interesting, and perhaps surprising, to know what these might be.

In addition to the EU's many complete and partial exclusions is the issue of financial services, the core of the global trading system. The EU has refused to make an offer on financial services because the US does not wish to negotiate financial regulatory issues in the context of a trade negotiation, another tit for tat. Not including financial services in a trade negotiation with Europe is almost unthinkable.

In summary the services negotiations face many obstacles, which prevent one from being hopeful that a strong, ambitious TTIP can be negotiated this year. Yet if a good TTIP cannot be negotiated this year, it is not likely to be for many years, given the positions of all the leading candidates for office.

Protests that a "TTIP light" is not acceptable may well be vain. None of the candidates for US President supports trade liberalization. Even Ms. Clinton, the former Secretary of State has advocated in strident terms, in a statement on April 18 this year for the Pennsylvania Fair Trade Coalition, for renegotiation of NAFTA, maintenance of Buy American provisions, and strict criteria for any new trade negotiation.

It may be necessary to agree to a TTIP light, or have no TTIP at all for a very long time.