BRITISH CHAMBER OF
COMMERCE IN DENMARK

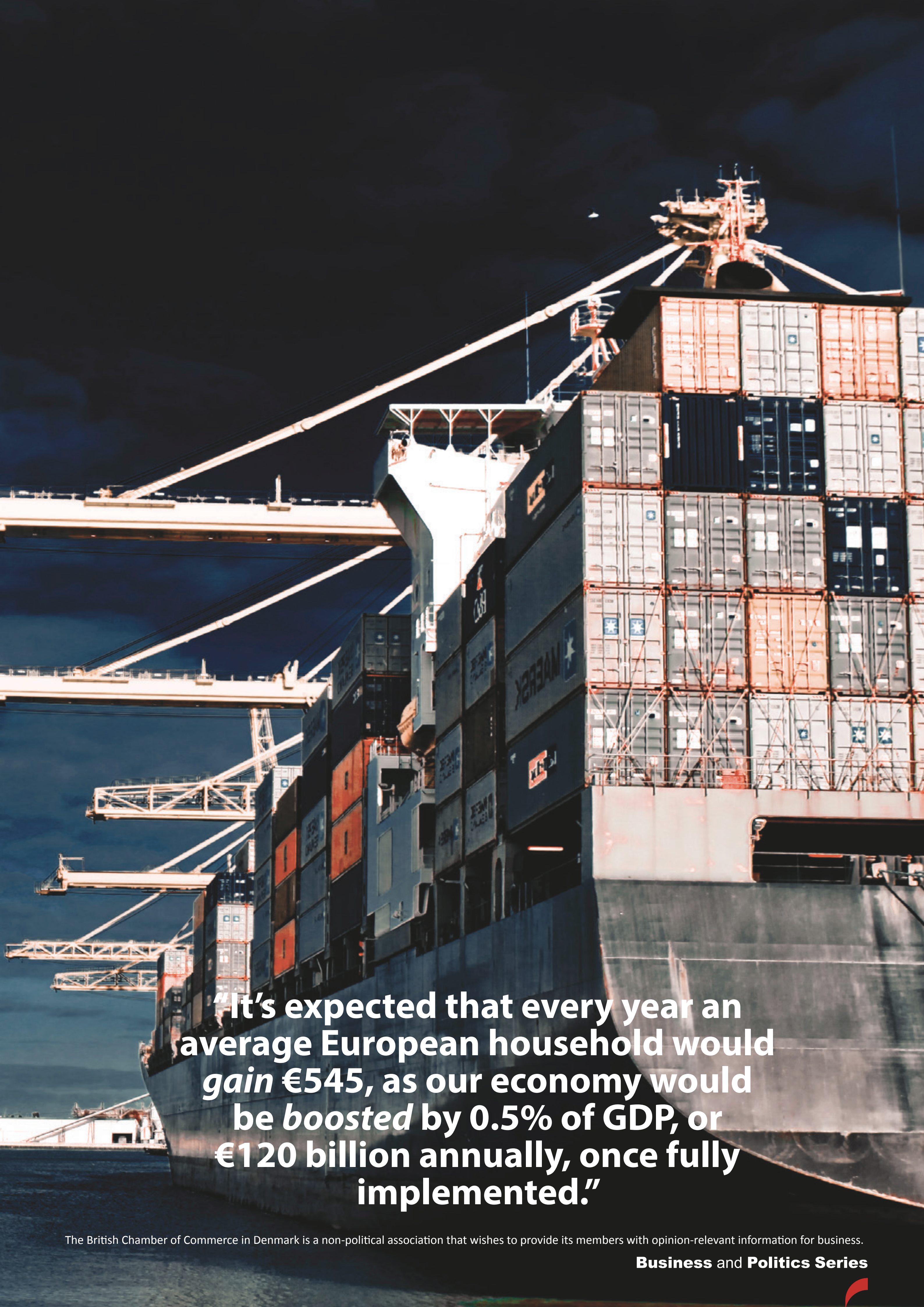
Business and **Politics Series**
September 2014

The EU-US Transatlantic Trade and Investment Partnership (TTIP)

"How will the business community benefit?"

A BCCD White Paper

Contents



"It's expected that every year an average European household would *gain* €545, as our economy would be *boosted* by 0.5% of GDP, or €120 billion annually, once fully implemented."

Executive Summary

BCCD Business and Politics Forums seek to assist Chamber members establish a link between political trends and how they affect their local and cross border operations. This quarter, we assessed the Trans-Atlantic Trade and Investment Partnership (TTIP), the most ambitious Free Trade Agreement (FTA) in history. It is supposed to be the magic growth pill for Europe's ailing economy. The Event titled "The EU-US Transatlantic Trade and Investment Partnership (TTIP): How will the business community in Denmark benefit?" brought together 100 business leaders, academics, diplomats and media houses in Denmark to debate with EU negotiators, trade experts and government representatives from Denmark, the US and UK.

July saw the 6th round of negotiations of the TTIP - something experts say is a good sign about the process. Advocates foresee growth, profits and increased stability for both parties, while critics fear assaults on national democracies, destabilisation of markets and favoritism towards big, multinational corporations. Regardless of the outcome, Danish companies will be affected, if the deal is closed.

Only 6-7 % of Danish exports go to the US, which TTIP is expected to change. The big question is; who will survive and who will not, if the agreement gets signed? The BCCD assessment is that the trade agreement will be a significant opportunity, but we also acknowledge the fact that it will have far-reaching consequences for the Danish community and business communities throughout the EU.

Mirroring the EU's economy, over 99 % of Danish companies are Small-Medium Enterprises (SME). If TTIP is approved, it will result in a "survival of the fittest" for SMEs never seen before in the Danish business community and across Europe. I expect more Danish SMEs to be cut loose from the supply chain and replaced by bigger companies if more dynamic and cheaper American components gain access to the market.

Companies need to focus on innovation and design: they ought to plan a sensible, progressive strategy if they are to make it in the new market with TTIP's competition. Relational collaboration in the supply chain can be history with TTIP and not all companies will survive under the new conditions. Whether critics or optimists will see their prophecies come true is unclear, but TTIP will certainly change the world.

On behalf of the Chamber, I would like to thank Kromann Reumert for hosting this conference and Bloomberg News for moderating it. We are also grateful to the speakers as well as other experts and the diplomatic community in general, whose presence and participation added to the success of the conference.

You will find a summary of the speakers' presentations and our analysis in the Appendix.

I hope you find this document useful and welcome your comments.

Mariano A. Davies
President & CEO

The Issue

The world's two leading economies still see huge trade opportunities between them as they face the biggest growth imperative simultaneously. In addition, the WTO - a global trade liberalisation institution, endless negotiations usually break down. TTIP, the abbreviation for the ambitious FTA (Free Trade Agreement) between the EU and the US, makes good promises to businesses (consumers too) and industries. Yet there are deep concerns among business leaders, who are eager to expand but suspicious of "the cost level" and how they could prepare for such costs.

No Growth

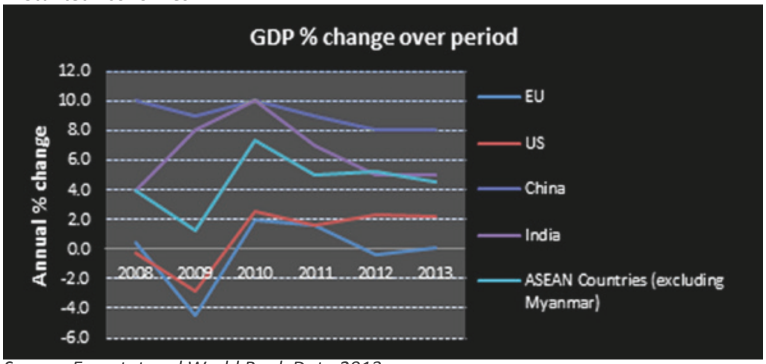
The EU and the US have had stagnant growth between 2008 and 2013 with an annual growth rate just over 2%. The Euro trouble and the persistent high unemployment of periphery economies have not made the situation any better. Spain, by far the troubled region's largest economy, saw unemployment at an all time high of 27% in 2013. Denmark's economy, whose financial system was by and large spared, experienced its share of recession and is all too happy to cash in on growth prospects.

In comparison, their Asian counterparts (excluding Japan), have been doing impressively well. China, for example, has maintained a growth rate at between 8-10% between 2008 and now - despite the financial crisis. India, with its all time currency woes, grew at an average of 6-7% within the same period. The ASEAN economies grew at an average of 4.5%. See chart 1.

The US has shown signs of recovery in the last year evidenced by job creation and retail sales which are vital indicators of the economy's performance. The EU is still lagging behind.

Further integration of both economies through reduction of non trade barriers (NTB), further opening of the market and the harmonisation or mutual recognition of standards, could see the already low tariffs be eliminated to create more wealth and produce the much sought after growth. Hence the European Commission approved the start of the negotiations on 14 July 2013.

1. Stunted Economies



Source: Eurostat and World Bank Data 2013

No Agreement

Immediate growth is not the only reason to negotiate bilaterally. The WTO established in 1995 to facilitate trade liberalisation is in a gridlock of multilateral negotiations. The famous Doha Rounds of talks started in 2001 gained notoriety for collapsing in 2008 and have not delivered to date.

The Trade Facilitation Agreement initiated in 2004 to side step Doha reached an agreement 9 years later in Bali. The Agreement contains provisions for faster and more efficient customs procedures. In July 2014, India has derailed the process in order to secure all members' commitment over agricultural subsidies. That further explains the need to proceed at a bilateral level that will produce far better results at a quicker pace.

What are the good and the bad?

Joe Francois, one of the BCCD's recent TTIP event speakers and Director of the World Trade Institute, referred to TTIP as a "Megadeal". What will such agreement deliver? According to EU and national government experts from the UK and Denmark at the BCCD event, TTIP should deliver on 3 main pillars to the economy and business community.

Increase market access. Increasing EU export in goods to the US market from current level (17%) but also in services and gain access to US public procurement. Danish businesses are forecast to increase export by 14% valued at approximately DKK 14 billon according to the Danish Ministry of Foreign Affairs.

Regulatory cooperation. Despite existing low tariffs between the two, the divergence in regulatory standards add an additional cost to goods and services that is equivalent to 10-20% of customs duties by EU estimates. This entry barrier is too high for SMEs that cannot meet the compliance cost of two sets of regulations and, as a result, will be locked out of the market. The Danish pharma sector should see some of its biggest gains under this pillar.

The application of the rules. This pillar sees that the rules are clear and fairly applied ensuring guarantees for foreign investments in both economies. However, the application of the rules should also not interfere with governments "right to regulate".

In general it benefits Europe's economy and businesses but what hidden challenges are there?

For the economy, trade diversion is one adverse impact when the deal enters into force. The EU currently estimates the value of diverted trade to be valued at €72 billion. Underperforming sectors are expected to lose talents to higher performers paying better wages. The cost of retraining and redeploying human capital in the new economy is also seen as some of the immediate challenges at a macro level.

At sectors' level, regulatory challenges are already being seen with agriculture over the protection of "Geographical Indications" or GIs. GIs are important intellectual property protection for food and beverage from a specific place in Europe and allowed to be sold in the US under their respective names. The EU estimates GI products to be valued at Euro €54 billion. The US as the single largest export destination for GI products, accounts for 30% of all GI export meaning it is an important market for EU agro products.

While Danish agro products may not be affected, as GI products are mainly concentrated in pockets of UK, France and Italy, they could potentially have to deal with phytosanitary regulations for dairy, food enzymes and additives.

For businesses, all fingers are pointing to the fate of SMEs. SMEs account for 99% of EU companies, providing 2 out of 3 private sector jobs. The same ratio applies for Denmark. Apart from their macro-economic importance, SMEs are essential to the supply and value chain of large firms and multinationals. Buy outs as we are seeing from cash rich American companies could seriously dent supply chain thereby disrupting continuity for big firms. Further opening of the market will see new entrants from the US increasing competition in markets that were traditionally secured. Cosy and loyal arrangements that dominate relationships between multinationals and local SMEs will be determined by quality, efficiency and price levels.

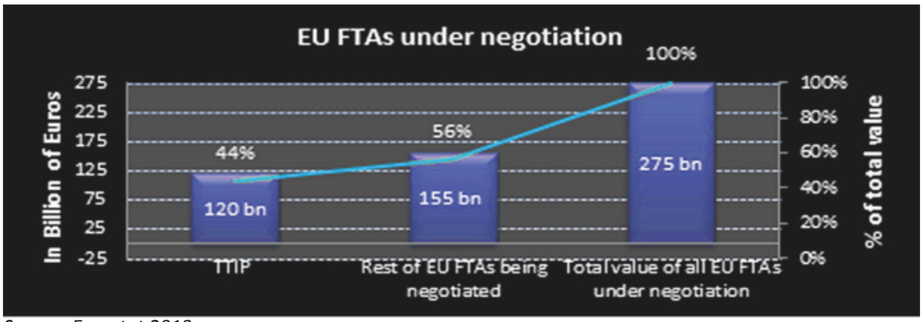
Background

A trade deal amongst trade deals

It is revealing to compare TTIP to other FTA's that the EU has concluded in the last 4 years, both in terms of the value of these agreements and scope. The EU-South Korea FTA valued at €14 billion, which entered into force in 2011, is the first in a new generation of FTAs launched by the EU in 2007. The purpose was to lift trade barriers. It is also the first FTA that the EU has concluded with an Asian country, paving the way for the comprehensive agreement between the EU and Singapore in 2013. Singapore is by far the EU's largest trading partner in South East Asia and the 15th largest overall trading partner. The scope of the deal includes opening public procurement markets, eliminating tariffs and lifting NTBs valued at €3.3 billion. Another significant FTA that the EU has concluded in 2014 is with Canada and valued at €26 billion, which is expected to act as a blueprint for TTIP in its scope and ambition. In terms of value, however, TTIP is certainly the biggest of these megadeals, with a projected combined value of €210 billion making it considerably larger than the combined value of all of the other mentioned FTA's estimated at close to €60 billion.

In another context, illustrating TTIP's value is to place it in the context of the projected value of ongoing free trade negotiations that the EU is currently undertaking with other countries. If the EU was to successfully complete all of its free trade deals, it would add a projected €275 billion or 2.2% of total GDP. TTIP will account for nearly 45% of that projected amount. See chart 2

2. Just how different

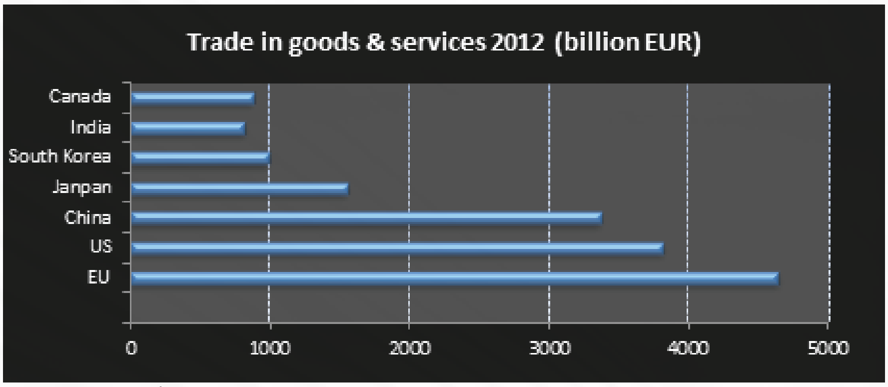


Source: Eurostat 2013

Maintaining soft power in the new global flow of trade

Like the US government representative at the BCCD event highlighted, TTIP is also important strategically to maintain the soft power of both the EU and the US in today's global economy, where critical mass is so essential for keeping a lead. Although both the EU and the US are already large trading blocs, individually other large economies are closing the gap. See chart 3

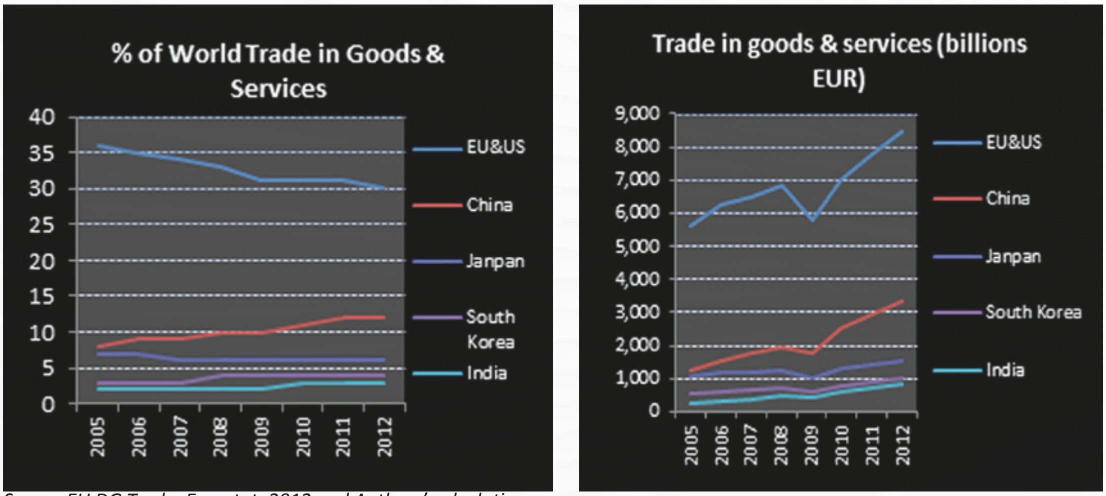
3. Others are not too far behind



Source: EU DG Tade, Eurostat 2012

An interesting comparison would be the case of the Single Market in Europe. Together, the 28 Member States of the EU achieve a strong position in global trade, with 500 million consumers and per capita GDP of €25,000. This has given the EU more leverage in trade negotiations with other advanced economies and secured a better position for European companies. The US market has 300 million consumers with a per capita GDP of €40,000. As a combined market, it will be the largest with the highest GDP per capita that will eventually reverse the trend of current flow of trade ensuring further economic growth. See chart 4

4. A different picture if there was a TTIP



Source EU DG Trade, Eurostat, 2012 and Authors' calculation

The impact of TTIP

Economic gains

The European Commission estimates of the economic gains based on a study by the Centre for Economic Policy Research (that predicts an ambitious TTIP) would have a total value of €120 billion for the EU and €95 billion for the US, representing 0.5% and 0.4% of GDP respectively. These gains will benefit businesses across every sector. EU exports by sectors would be boosted by 12% in metal products, 9% in chemicals and by an extremely significant 41% in motor vehicles. The expected EU exports to the US are estimated at 28% amounting to €187 billion in goods and services. The boost in exports would also result in an increase in imports by a total of 5% in the EU and US across all sectors, representing €226 billion and €200 billion respectively. See chart 5

The result of these significant increases in trade will also benefit consumers in both the EU and US. This will be through a combination of cheaper products and wage increases. The EU estimates that an average European family will see an increase in income of €500 per year – good news for retailers too.

Regulatory gold standard

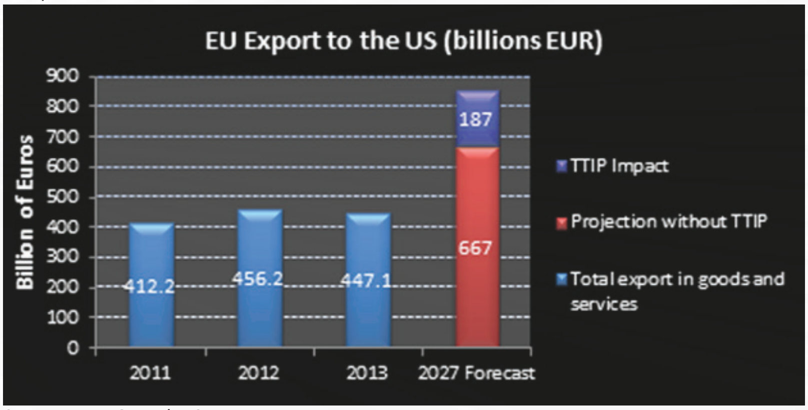
In addition to unlocking economic benefits, greater regulatory coherence would certainly provide further benefits. The critical mass of TTIP would oblige global trading partners to meet the same high standards decided by EU and US regulators, thus establishing a global regulatory standard. New standard setting remains one of the key aspects of economic leadership and it creates unique first mover advantages for firms in new or emerging industries. For EU companies this will keep them innovative and ahead of their competitors.

A good example this area can be seen with electric cars - a new growth sector that is still in infancy. A convergence on regulatory standards as the result of TTIP will eventually be the "global standard".

Job creation

The commission expects TTIP to result in job creation that will be directly linked to exports in the EU. The commission estimates that every billion euro of trade in goods or services supports around 15,000 jobs in the EU. Based on this figure, an ambitious TTIP could be expected to increase jobs by "several million" considering the estimated €187 billion exports TTIP will create for the EU. Other results will include better quality jobs and slight increase in wages for skilled and unskilled workers.

5. A peek into the future



Source: EU DG Trade, CEPR

Solutions for Businesses

Businesses find themselves having to play a dual role in the solutions to the TTIP challenges. They need to ensure that negotiators get it right at the macro level. Next they need to start reorganising themselves in anticipation of the change that should be upon them soon.

1 Join the bandwagon

Negotiators are creating the policies and regulatory frameworks that will set the basis for how the new market will function ultimately affecting how companies will do business. Therefore, getting it right is the most important element in the process of negotiating and the impact it delivers. To do this appropriately means that negotiators need to be fully aware of the concerns and demands of the companies that will be affected. Foreseeable challenges best known to sectors must be passed on to them. Windows of opportunities should also be highlighted to facilitate flexibility and compromise with the other party as this should be a win—win situation.

This can only be achieved if businesses are active in the public consultation process. They can be active on multiple platforms. They can engage in the debate through trade organisation bodies or at individual company level. Over 40 different firms demonstrated that at the BCCD TTIP event. The EU head of Trade Strategy asserted that the partnership between businesses and authorities and getting the message about TTIP across is vital especially at this stage of the negotiations. The US Ambassador to Denmark confirmed that governments cannot do it alone and that everyone including businesses needs to understand the stakes and explain it further to others. Businesses should also reach out to their respective customers, who are the source of their cash flow, but also consumers that regulators seek to protect. They should be made aware of any change that the deal may have on the way products will be produced, packaged, distributed and sold to them.

2 From business as usual to business unusual

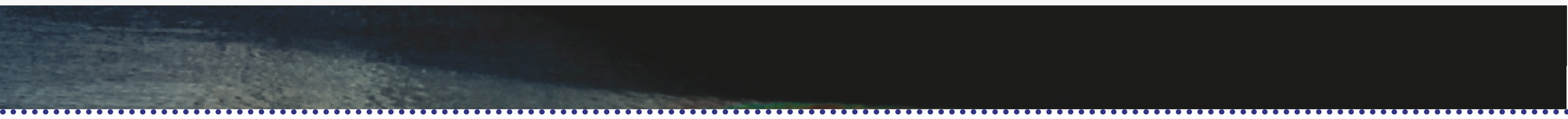
How to deal with the secure markets and cozy traditional business-to-business relationships here in Europe will turn the European business model inside out. Though Europe has some very competitive firms that are strong in design and engineering, they can be quite slow to adapt relying often on the uniqueness of their products. This model of doing business must be completely revised to effectively compete with US companies. They must become hyper alert to US competitors in their sectors with the potential to unseat them in their home markets. Let us not forget that Apple did it to Nokia without an FTA.

Innovation remains the key to surviving competition for European companies. Innovation not only for products or services themselves but also in the way the new market is accessed and how market shares will be built. European companies should remember that the US market is a large developed and sophisticated one with values similar to theirs therefore requiring a new approach. For example, they should follow quickly in the footsteps of their US counterparts, who are already gaining market access by buying up or parts of key European firms. Dong, Alstrom and Danisco are a few examples that come to mind. What they should note here is that US firms are targeting EU firms in key sectors that they either provide public services or have keen government support. By doing this, these firms are securing a place for themselves in sectors where TTIP allows for European governments to apply preferential treatment.

Long-term focus

Joe Francois said the TTIP is not simply an agreement but a process. It is a process that for the long term businesses should regard will set the foundation for the next generation of transatlantic business activities. It will see them forced to innovate to survive.

On a specific front, European businesses should start investigating and building market intelligence on other sectors and geographies of the US market that are still under the radar. New sectors like shale gas, vehicle internet connectivity, personalised medicine, high-speed rail expansion and public infrastructure upgrades are all new growth areas that are worth looking into. American Midwest States like North Dakota are the home to the future shale and oil boom and European firms should be looking to see what untapped opportunities would arise there. By investing in this level of market intelligence, they can see where their products will have a niche impact therefore giving them first movers' advantage. As for TTIP, it should be part of every EU firm's long-term focus.



Conclusion

The value of BCCD's Business and Politics Forums

Through the BCCD Business and Politics forums, firms can establish much closer links between today's political decisions and global business outcomes tomorrow. As a forward-looking Chamber, we know that key political decisions like negotiating an FTAs could have serious implications for businesses, many of whom are our members with interests in the US and Europe. Our political independence gives us access to high-level speakers and policy makers that either firms or their trade association would find difficult to reach.

That is why BCCD encourages as many of its members and partners as possible to take full advantage of these forums. Be it national, European or international, each event gathers experienced experts to explore with the business community common themes and trends. The impact for businesses is that they can then draw normative conclusions that will keep them better prepared.

After each conference, BCCD will publish a full white paper recapping the major themes and include a pitch as to the way forward.

Powerful businesses are built on the foundation of strong market institutions that have their foundation in politics. So be a part of it. You have nothing to lose and potentially so much to gain.

Appendices

Appendix A – Perspectives

A Synopsis of “The Transatlantic Trade and Investment Partnership: How will the business community benefit?”

The speakers provided participants with different perspectives on the TTIP beginning with Denmark. They clarified interest, divergence, and the implication for business. Below are the speakers’ highlights including BCCD’s independent analysis. At the end of the event, participants had a better understanding of what TTIP holds for them. Feedback from this event has helped the Chamber to improve and develop its concept for the next years.

EU perspective – Denis Redonnet

The EU perspective represents that of 28 Member States. It is primarily a growth and job creation initiative. The EU is keen to see that European companies get more access to US markets, stronger and better cooperation on regulations and filling the gaps in global trade.

Benefits should be largely distributed throughout the Union and should target all segments including large, medium and small businesses. However, they should insist that in order to achieve this, the Commission, charged with negotiating on the Union’s behalf, needs the support of national governments in driving the public consultation agenda.

As the EU usually says, its employees leave their passports at the door, it harbours no individual member interest but the aggregated wellbeing of all. Its steps to commission an independent report on the economic benefit of TTIP to Europe (as it has done for other FTAs) demonstrates its commitment to the common good further anchoring its neutral and professional stand.

The call for national government engagement reflects the decentralised nature of European politics, where “what can be handled locally, should be handled locally”.

Danish Perspective- Ambassador Lars Thuesen

As a small export based economy, FTAs are absolutely vital especially with the US market that constitutes Denmark’s largest outside of the EU at DKK 100 billion. Conservative estimates, showed that TTIP will result in an export increase of 14% or an additional DKK 14 billion. Denmark attaches particular importance of TTIP to its pharmaceutical, wind energy and maritime sectors. Therefore, alliance with other Member States, whose stakes are high in this area, is important for forming an agenda.

Two of the sectors mentioned are performing well in the US market but further market access for say the maritime sector could still uncover growth opportunities. Regulatory harmonisation in the pharma sector could open the door for many of Denmark’s niche pharma companies that would rather cater to domestic demand at the moment.

The US Perspective - US Ambassador J. Rufus Gifford

The US sees this agreement as an economic NATO. So in addition to the hardcore economic benefits, they see it through the lens of maintaining global economic lead. Ambassador Gifford described TTIP as a means of reenergising every sector and maintaining effectiveness as global leaders. The US is interested in 0% tariffs, better regulatory coherence, investment and investment protection and the setting of a new global standard.

We believe that the US recognises that further economic alliance with Europe can ensure that companies on both sides remain dominant players in their respective sectors. The critical mass that both economies will produce when fully integrated will go a long way in setting global standards that both EU and US companies can use to compete in the changing global economic outlook. Finally, the US can also use TTIP to develop environmental standard and accelerate its regulations in this area. This will in turn foster innovation in these sectors.

Appendices

The UK Perspective - Edward Barker

The UK with a strong finance industry views TTIP as a "debt free stimulus". This is well said as governments around the world injected billions into economies to support growth in response to the financial crisis. TTIP for the UK itself means open markets, clear rules and fair application of the rules. Therefore in terms of regulations, it is not pushing so much for harmonisation but rather mutual recognition of equivalence. UK SMEs are anxious about TTIP and eyeing public procurement opportunities in the US. Sectors of interest to the UK are financial services, pharma and automotive.

Dubbing TTIP a debt free stimulus by the UK does not come as a surprise from an economy with a huge finance sector. The US market is fairly open to UK companies but further opening of more sectors could be a game changer for UK companies. The UK approach to the regulatory question reflects the fact that the UK itself has rigid regulatory standards that would easily respond to mutual recognition rather than harmonisation. The UK competes actively with the US in the financial sector therefore clear and fair application of rules matters a lot for its financial institutions. That is from the determination of irregularities to the imposing and value of fines, all need to be clear from both sides.

An academic perspective - Prof. Joe Francois

Joe Francois is an academic, whose opinion is driven by hard data and facts with little consideration of national interest. He considered TTIP not as an agreement but a process. A process that could deepen and improve on traditional FTAs, provide further scope for standard spill-overs and scope for geographical expansion. He sees greater cooperation as an important success factor and uses the EU single market rules and its benefits as an example to emulate. He foresees non discriminatory rules as the best way to obtain the true value of the expected agreement.

He outlines what he sees as the potential economic benefit of TTIP but warns that value could be lost if the agreement is laden with discriminatory element.

Appendix B – Scenarios

Public Procurement - Anders Jessen

The EU lead negotiator on public procurement painted a scenario of one of the key areas of the TTIP negotiations. Governments through public procurement still represent a sizable amount of economic activity between what is around 15-20% of GDP. Therefore, opening PP markets between the two blocks will be a win-win course of action that could result to up to 30% in cost savings for tax payers and businesses. Inspite of the multilateral move to integrate procurement globally, it is still a slow process. TTIP at a bilateral level and could happen at an accelerated pace. The US market presents opportunities yet legislative barriers such as the multiple "Buy America Acts" and "Set-Asides" for US SMEs have to be neutralised in relation to the EU.

Government spending around the world still accounts for large chunks of companies' revenues with the EU and US being no exception. Governments still wholly or partially regulate the tendering for say the following services - healthcare, water, education, defence and energy. These sectors are closely tied to sovereignty and on that basis can lead to preferential treatment of national firms over foreign competitors. Public procurement remains the low hanging fruit - especially for SMEs and regulatory barriers should not hinder that.

Appendices

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