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TTIP AND THIRD STATES

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On 5 May 2015, the Jacques Delors Institute in partnership with the Istituto Affari Internazionali, the Stiftung Mercator, and the Istanbul Policy Center organised a seminar titled "TTIP and third countries: The case of Turkey" to discuss options for a plurilateralisation of the Transatlantic Trade and Investment Partnership.

Debate over the Transatlantic Trade and Investment Partnership's potential to generate economic growth has evolved since the negotiations were launched in July 2013. Expectations of rapid economic growth have been replaced by a more cautious assessment of modest growth in the short term. In light of these changing assessments on TTIP's impact on the European and American economies, how is the agreement likely to impact third countries that already have pre-existing trade deals with one TTIP member? How can these countries try to maximise the benefits of TTIP while shielding themselves from the risks? While EU and US negotiators have the prospect of contributing to a revitalisation of WTO via TTIP, options to plurilateralise the final agreement require also further scrutiny as it should be well anticipated during the negotiation itself. On 5 May 2015, the Jacques Delors Institute in partnership with the Istituto Affari Internazionali, the Stiftung Mercator, and the Istanbul Policy Center sought to address these questions in a seminar titled, "TTIP and third countries: The case of Turkey." The discussion was introduced by Josef Janning, Senior Policy Fellow at the European Council of Foreign Relations (ECFR – Berlin), Sinan Ülgen, Visiting Scholar at Carnegie Europe (Brussels), and, Ebru Turhan, researcher at the Istanbul Policy Center (IPC). JDI Senior Research Fellow, Elvire Fabry, moderated the discussion. The seminar took place in the framework of the Global Turkey in Europe project.

1. Reevaluating TTIP's impact

The debate began with comments on the changing nature of the international debate on TTIP, with the first speaker stating that it has "arrived at a phase of realism." What was initially regarded as an economic "big bang" that would generate important growth between the world's two largest economies is now being viewed with significantly more modest expectations. More recent studies have shown that the economic benefits of the Partnership will be much smaller than initially believed.

As an agreement designed to promote closer economic ties between the US and the EU, TTIP has also generated a great deal of discussion on how third countries will be impacted. The conference focused particularly on countries with free trade agreements or a customs union with the US or the EU, notably Canada and Mexico (NAFTA), Iceland, Norway, Lichtenstein, Switzerland (EFTA), and Turkey (EU-Turkey Customs Union). Such countries fear to be particularly impacted by the implementation of TTIP and point at the asymmetry that it would introduce in their own bilateral agreement.

TTIP's most ambitious objective is to address non-tariff barriers (NTBs) to trade. Yet the removal of tariff barriers (TBs) between the US and EU would be a substantial part of the TTIP's final outcome. This aspect in particular may have a slightly negative impact on third countries. By doing away with import tariffs, TTIP would make goods produced in the EU more competitive in the US and vise-versa. This would come at the expense of goods from third countries, which would find themselves facing greater competition from increasingly affordable commodities from TTIP countries.

However, this negative impact on the competitiveness of third country goods would be counterbalanced by improved access to US and EU markets. Since it would make way for a mutual recognition of regulatory standards - when an equivalence of level of protection has been assessed between standards -, third countries would only need to align themselves with one set of standards in order to gain access to both markets. This would be a boon to third country manufacturers who would no longer need to spend needless time and money meeting two equivalent and redundant sets of standards.

Though the agreement may offer certain economic benefits to third countries, TTIP would nevertheless place these countries in a difficult position. TTIP negotiators have been very clear from the early stages of the negotiation that it would be too complex to add additional parties to the negotiating table. But incentives remain strong for third countries to pursue some form of docking mechanism which would ensure a less vulnerable position vis-à-vis the TTIP member states.

2. Options for docking TTIP

2.1. Complementary FTAs with the EU or the US

Since these third countries already enjoy trade facilitation with the EU or the US through EFTA, NAFTA, or the Turkish-EU Customs Union, one possibility would be to set up a bilateral free trade agreement with the proverbial missing piece in the transatlantic free trade puzzle. Canada, which has long been a member of an FTA with the United States, would as such benefit from the bilateral trade agreement, CETA, which has been signed but not yet ratified with the EU. This could also be an effective way for other third countries to reap the aforementioned economic benefits of TTIP while mitigating many of its more pernicious aspects. However, this approach is highly dependent on the US or EU's willingness to pursue such a negotiation. In the case of Turkey, the pursuit of a bilateral FTA remains a low priority for American policymakers. Another disadvantage of this option is that it would create a complex system of parallel FTA negotiations and would only contribute to intensify the so-called 'spaghetti bowl' of FTAs.

2.2. Bridging agreements

Another option would be for these third countries to establish direct bridges between TTIP and their own regional FTAs. For example, an agreement between NAFTA and the EU would allow Mexican producers to gain greater access to EU markets. Like the strategy of creating bilateral FTAs, however, this precludes third country influence over TTIP decision-making. Another obstacle to such an arrangement would be the highly contrasting rules of origin in place between for example NAFTA and the EU. The construction of bridge agreements between TTIP and its regional equivalents is unlikely due to the prohibitive nature of these gross incompatibilities.

2.3. An accession clause

The most realistic and effective approach for ensuring closer integration between TTIP and third countries would therefore be the inclusion of an accession clause within the body of the TTIP agreement. This would make it possible for outside countries to become full members of the Partnership in the years to come on the condition of fulfilling the necessary economic requirements. In order to prevent the choice of whether or not to extend membership to certain candidates from becoming politicised, it was recommended that the clause provide for the establishment of an accession committee that can evaluate third countries on whether or not they have fulfilled the economic conditions for membership. The speaker also highlighted the importance of establishing individualised accession requirements for each candidate country, which would allow countries to follow specialised sector-by-sector transition processes based on their individual needs. These provisions would make TTIP membership an attainable goal for outside countries while eliminating the need for a complicated web of bilateral agreements between TTIP members and outside states.

However, another speaker estimated that the TTIP regulatory convergence chapter wouldn't be accessible to third states. That said, he anticipated that negotiators would probably not get a major inclusion of NTB treatment in TTIP to begin with; regulatory convergence is much more difficult to address than custom tariffs removal due to the large amount of mutual trust and confidence such measures require, as well as the important differences in how product safety is determined in the US and EU. Therefore tariff reduction or the growing issue of service liberalisation may be greater areas of interest for third states. The discussion led one participant to suggest that this inclusion of third states in TTIP could be better managed via an association agreement with TTIP allowing a more differentiated approach (with all market access issues not being necessarily included, and with a sector-by-sector approach).

3. The Case of Turkey

A specific focus was made on the case of Turkey during this discussion. Bound to EU trade policies through a 20-year-old Customs Union agreement, Ankara is watching the TTIP negotiations unfold with a wary eye. The asymmetric relationship between Turkey and the TTIP members undoubtedly places the country in an uncomfortable position. One speaker highlighted a forthcoming study from the Turkish Ministry of economy showing that being left out of TTIP could put a high burden on Turkish exporters. The TTIP would also give US goods preferential access to the Turkish market without reciprocity. However, while finding a way to integrate itself into the new economic space may be a high priority for Turkey, we have seen how bilateral and interregional solutions can be problematic.

The option of including an accession clause that allows outside countries to join TTIP came in the discussion as a potential solution to this problem. This would make full TTIP membership a possibility down the road.

Meanwhile, Turkey has advocated for a long time for a deeper and modernised Customs Union with the EU in areas such as agriculture, services, and public procurement issues. The economic boon from closer economic integration would help Turkey offset some of the costs of TTIP in the short term and help prepare the country for a progressive integration in the long term. This could also provide Turkey with a useful test case for the remaining perspective of a future integration into European structures.

The EU also has incentives to pursue a deepened customs union with Turkey. In times of strained relations with the EU, Turkey's foreign policy has become less and less aligned with the EU. Domestic political reform – notably democratic reform – has become stunted, and prospects of EU membership are becoming doubtful. The changing economic dynamic may reverse this trend. With exclusion from TTIP likely to impact the competitiveness of Turkish goods, the country has a renewed incentive to pursue greater economic integration with the EU. The EU could use this position to leverage democratic reform in exchange for a deepened customs union. Making way for membership via the inclusion of an accession clause could then be used to sweeten the deal.

Turkey's stake in finding a favorable solution to the TTIP question will only increase as time goes by. As increasing instability in the neighbouring Middle East cuts into trade with the region, Turkey has begun reorienting its economy towards Europe. In July 2014, exports to the UK increased thirteen percent from the previous year. To France and Germany, exports increased by eight and fourteen percent, respectively. Compare this to the country's exports to wartorn Iraq, which declined by 49 percent during that period alone. These economic realities place Turkey in an increasingly dependent position vis-à-vis the EU, and likely make closer integration with TTIP a high foreign policy priority, despite the doubts one speaker raised that the Turkish government is currently likely to put its political agenda behind its trade agenda.

After the 11 May 2015 meeting between the Commissioner for Trade, Cecilia Malmström, and the Turkish Minister of Economy, Nihat Zeybecki, leading to the announcement of the modernisation of the Custom Union, an impact assessment will be conducted through 2016, before a mandate for negotiation is agreed in the European Council and the European Parliament. If TTIP negotiations are likely to last much longer than initially expected, this simultaneous negotiation on a renewed Custom Union may also be a long process, paved with resistance from some EU member states.

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