

## **TRANSATLANTIC FREE TRADE AGREEMENT – STILL ALIVE OR DEAD CONCEPT IN EU-US RELATIONS?**

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### **—Abstract —**

The paper examines current issues, which are considered in a debate of creating of the free trade area between the EU and USA and major obstacles to reach such agreement. The concept of Transatlantic Free Trade Agreement was discussed in the nineties, but some contributions on this topic have occurred and handle with benefits and disadvantages of this concept. The paper verifies if the global development and political will on both sides of Atlantic could move this issue further and prove efficiency or inefficiency of such step. The conclusion argues that the deepening of the transatlantic economic relations is a long-term process, which could learn from global occasions - not only from the economic but from political view as well.

**Key Words:** *transatlantic economic relations, free trade agreement, TAFTA*

**JEL Classification:** F02

### **1. INTRODUCTION**

The Transatlantic Free Trade Area (TAFTA) has belonged to long-term goals of the cooperation of the US and the EU. Concept introduced at the end of 90's has been in scope of lot of scholars due to issues of real contribution and future consequences of TAFTA. The potential of the transatlantic trade is huge. It is the largest economic partnership in the world and it creates more than 30% of global trade in goods and more than 40% in services. This, still growing activity of the US and the EU and global development creates an opportunity and evokes a question to create and integrate the transatlantic area.

On one hand, the Free Trade Area remains still one of political interests of both entities on the other it is still questionable when and how this could be realized.

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From analytical point of view some papers have appeared where scholars argue with inefficiency and disadvantages in establishment of TAFTA. Obviously, an argument that “the trade disputes affect less than 2% of the value of our total commercial trade relationship” (Ashton: 2010) often justifies long-term and slow negotiations and debates on this topic.

In common there are some hypothesis among approaches offered on this topic – the creation of NAFTA would be inefficient and on the other hand NAFTA as concept is long-term difficult objective in transatlantic relations.(Langhammer 2008:1)

This paper aims to identify and explain current view of the TAFTA concept, which is based on analysis of published approaches. Central question is expressed in the title of paper – if the TAFTA can be viewed as a real objective or as a concept with no relevant interest of both entities to realize it.

## **2. Historical background of the TAFTA**

The roots of idea Free Trade Area among the EU and the US can be found in the middle of 90’s in the platform Transatlantic Business Dialogue (TABD), as one that time leading body in trade stimulation between US and the EU.

The concept and its realization was had been justified by more factors. Free trade area between the EU and the US is often intertwined with rising position of China in global economy - where eventually the EU-US Free Trade area could act as a counter-balance. Creation of the North American Free Trade Agreement as successful regional trade partnership is also one of possible challenge, why such a kind of agreement should be effective implement.

In common, evolution of the TAFTA idea is characterized by two initiatives – Transatlantic Free Trade Area (TAFTA) and New Transatlantic Marketplace (NTM).

NTM was first time presented in the New Transatlantic Agenda in a document signed between the EU and USA in 1995 in Madrid. New Transatlantic Marketplace is in this document defined as an initiative to “expand trade and investment opportunities and multiply jobs on both sides of the Atlantic and “contribute to the dynamism of the global economy”.

Broader concept of New Transatlantic Marketplace as a vision has been introduced in 1998 by Sir Leon Brittan, Mr. Bangemann and Mr. Monti in the Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee. The document argues that at the

macroeconomic level "the removal of existing tariff and non-tariff barriers to transatlantic trade in industrial goods and in services would have positive macro-economic effects for both partners" and "at the micro-economic level, it would mean greater economies of scale, reduced costs for producers and consumers and less uncertainty for EU and US firms." Date of implementation has not been set up, this proposal counted with permanent barriers removal, what had to lead to creation of the NTM.

Attempt to set up the realization of the New Transatlantic Market Place was met with criticism and doubts, what came from some EU member states, for instance from France (one of the reasons, why France blocked the preparation of the concept was fear from competition on audio-visual services and its protection, Hindley 1999: 46). However, this is only one part of the issue. Current view of broader transatlantic integration its merits and potential is drawn in following chapter.

New expectations in the broader integration of the EU-US space had brought the Framework for Advancing Transatlantic Economic Integration between the European Union and the United States of America in 2007. Under this framework the Transatlantic Economic Council (TEC) was created, what is sometimes denoted as one of crucial steps leading to future creation of the NTM. TEC is a political body (co-chaired, on the U.S. side, by a U.S. Cabinet-level official in the Executive Office of the President and, on the EU side by a Member of the European Commission, collaborating closely with the EU Presidency) which tasks are involving stimulation of the relationship and the economic integration of both entities (see Framework for Advancing Transatlantic Economic Integration between the USA and the EU, Section IV). On this place, it is necessary to add that the work, role and results of TEC - as a stimulator of the transatlantic trade are questionable.

Some scholars (see Erixon, Brandt 2011) call for better definition of tasks and clearer and more flexible activity of TEC to enhance and catalyze issues in transatlantic relations.

Real progress in solving of this issue is disputable. As mentioned above, the concept alone is wide discussed and a part of inevitable relations between in the EU-US relations, from the 90's. Latest development shows, that an interest to handle with this topic is evident. The European Parliament in declaration from 2009 "continues to advocate the completion of a transatlantic market by 2015, based on the principle of a social market economy, the realization of which – alongside the completion of the EU's own single market– will be a core factor in

re-launching global economic growth and recovery.” This supports an opinion that free trade area between the US and the EU still lives, even if not on a daily schedule of Obama’s Administration and the European Commission.

### **3. Merits and limits of the TAFTA**

It is often discussed, what could the potential TAFTA bring not only for the US and the EU, but for global economy as well. At this place, it is inevitable to add, that no of approaches is exact and works with statistical projections and data, what could not be considered as deciding argument.

Rolf Langhammer in his paper examined pros and cons of the TAFTA concept and concludes that liberalization of the transatlantic space has more cons than pros. The free trade area between the US and the EU would have not only impact on the US and countries of the EU, but the free trade area are also intertwined with the countries of NAFTA, where the US is a member. On the other hand issues can occur due to specific relations of both entities with third countries. Any special relation among the US and the EU can be obstacle – Langhammer argues that „FTAs with third countries loose in attractiveness for the partner countries because TAFTA denies them privileged access to the US and EU markets vis-à-vis one of the TAFTA partners”(Langhammer 2008: 15). The situation may be more complicated in countries where for instance the US has signed FTA and the EU not. In general „TAFTA depreciates the value of bilateral FTAs for those spokes which are tied to one hub within TAFTA but not to the other: “TAFTA swallows bilaterals”.”(Langhammer 2008: 15).

Above mentioned issues are not the only considered as disadvantages or dangers of realization of the TAFTA. The US and the EU have to cope with other disputes. A problem of subsidies in agricultural sector is widely known as well as the Boeing – Airbus subsidies dispute. It is hard to answer the question if these issues can be defined as an obstacle. However it is certain, that all of them play an important role in the discussion concerning the prospective transatlantic free trade area, without solution of fundamental questions and impacts no decision can be met.

#### **3.1. Transatlantic Zero Agreement**

Last attempt to illustrate how strong the free trade area could affect the transatlantic space confirms a study published last year. Paper by Fredrik Erixon and Matthias Bauer handles with possible impact of the concept of Transatlantic Zero agreement(Taza). This proposal has been developed on base of three

significant arguments; these underline the transatlantic trade relations. First of them is

1. Size of the transatlantic economy – basically, at the EU-US time trade and investment are defined as largest bilateral economic relationship in the world.
2. High degree of intra-firm trade driven by foreign affiliates. (half of all US foreign affiliates are in Europe and 60% of the assets held by US foreign affiliates are in Europe)
3. High degree of intra-industry trade between the US and EU – provided that there is a competition between firms in the same sector, eliminating of tariffs will stimulate the trade (Erixon, Bauer 2010: 5-7)

Under condition of elimination of all tariffs on goods, the growth of GDP (static projection - full removal of tariffs) is estimated by 0,01% to 0,15%. The dynamic gains would be higher under reduction of trade facilitation costs and increase of labor productivity – study estimates growth of GDP from 0,32% to 0,47% in the EU and 0,99% to 1,33% in the US. As mentioned, dynamic gains can have high impact on the transatlantic trade. Erixon and Brandt (Erixon, Brandt: 2011) argue that Taza is on one side a proposal with significant impact on both entities, on the other authors admit that Taza initiative “would not address the main problems in today’s transatlantic relations: NTBs (non-tariff barriers of trade) and regulations of services and investment”. The defense of this concept is based on the impact of agreement and among others on “the push effect on liberalization in other countries” and consequently Taza can encourage them to eliminate tariffs.

The debate about transatlantic free trade area has extended reflections about other possibilities of the transatlantic economic integration. These ideas includes options of bilateral transatlantic initiative, plurilateral agreements, critical mass agreements, open regionalism or a concept of international digital economy agreement (See Erixon, Brandt: 2011)

#### **4. CONCLUSION**

The TAFTA concept has been more than 20 years ago and is still a subject of debates not only among scholars but on high political level as well. To realize such an agreement is inevitable to analyze potential gains and losses for both entities. As mentioned on one hand there relevant gains – economical potential of the transatlantic cooperation is not by far not used on 100%, on the other obstacle what complicates relations are persisting, but under bilateral level negotiated but

still criticized due to long and problematic issues and activity of involved institutional bodies.

Among scholars have appeared further approaches and ideas which develop possible options and confirm potential of prospective establishment of the free trade with or without restrictions. This is a prove of interest to bring near not only political views of this issue, but to demonstrate impacts of strong transatlantic cooperation, what could become steering power in the global economy.

Considering the current economic development is still hard to estimate, when and how will be transatlantic free trade agreement realize. Harder question is in which way this decision can be met. As mentioned, some new ideas have appeared in the discussion. It is also possible, that such initiatives can be relevant and can play crucial role in the future.

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