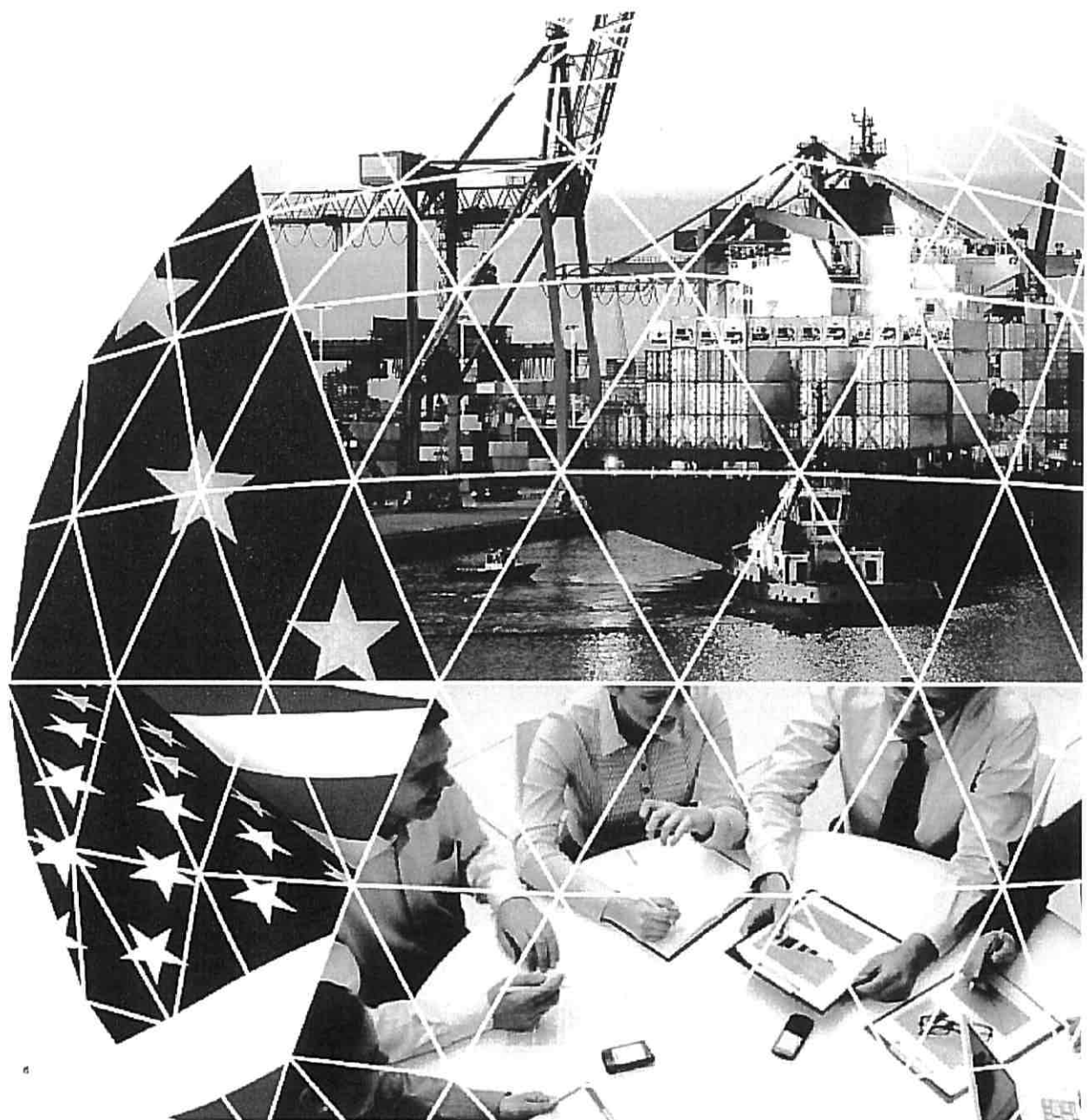


Study on "EU-US High Level Working Group"

Executive summary

Client: Dutch Ministry of Economic Affairs, Agriculture and Innovation

Rotterdam, 22 October 2012



Executive Summary

Background and objective of the study

The European Union (EU) and the United States (US) have a long-standing relationship on several levels (economic, political, etc.), and their economies are strongly intertwined with large bilateral trade and investment flows. During the last EU-US Summit in November 2011, the Transatlantic Economic Council (TEC) was requested to create a High Level Working Group on Jobs and Growth (HLWG), to identify and assess policies and measures to further increase EU-US trade and investment. The HLWG will report its findings and recommendations to both US and European leaders by the end of 2012. This study aims to contribute to the HLWG discussions by presenting a clear overview of trade measures that can be aligned and the economic consequences for both the Netherlands and the EU of an FTA between the EU and US. By doing so, the study aims to provide the Dutch Government with relevant inputs for the HLWG discussions on further cooperation between the EU and the US.

Approach

The approach and methodology of the study are based on the following four steps:

1. *Step 1: Assessment of the effects of a potential EU-US FTA for the Netherlands*, both at a macro and sectoral level, on the basis of two previous Ecorys studies and additional analyses;
2. *Step 2: Selection of top sectors for further focus*, on the basis of four selection criteria;
3. *Step 3: Identification of most important US trade barriers for Dutch (and EU) business*, through desk study and stakeholder consultation;
4. *Step 4: Formulation of policy recommendations*, based on the conclusions from step 1 to 3.

Economic effects of an EU-US FTA

The effects of an EU-US FTA are based on two recent studies that use different assumptions and liberalisation scenarios. The EU-US FTA study (2009) looks at liberalisation in the area of tariffs, barriers to services trade and NTMs, but does not model specific effects of individual NTMs. The EU-US NTM study (2010) specifically addresses the effects of NTM liberalisation, but does not model tariff or services barrier reductions. As this latter study only looked at the effects for the EU and US, additional analysis has been conducted to identify the effects for the Netherlands.

Both studies predict significant positive results at macro-level for the US, EU and the Netherlands. For the Netherlands, the expected annual increase of national income ranges from €1.4 billion to €4.1 billion. The following table shows the results from the two studies for a selection of macro-indicators.

Macro-effects of EU-US trade liberalisation, selected indicators

Comparison of outcomes		EU-US NTM study (DG Trade), including new results		EU-US FTA study (EZ)
		Ambitious NTM reduction, Long run	Limited NTM reduction, Long run	Long run
Real income, bn Euro	European Union - 26	117.4	51.7	34.9
	The Netherlands	4.1	1.8	1.4
	United States	40.8	18.3	24.1
Value of exports, % change	European Union - 26	2.03	0.88	1.6
	The Netherlands	1.69	0.76	1.3
	United States	6.06	2.68	5.7
Value of imports, % change	European Union - 26	2.01	0.88	1.6
	The Netherlands	1.83	0.8	1.4
	United States	3.93	1.74	3.7
Terms of trade, % change	European Union - 26	0.07	0.03	-0.2
	The Netherlands	0.07	0.03	0.0
	United States	-0.23	-0.10	0.1

Note: EU26 is the EU minus the Netherlands.

The results at sectoral level are not fully comparable, as the two studies use a different aggregation of sectors. In the EU-US FTA study, Dutch sectors that are expected to gain most in terms of percentage output increase are iron and steel (5.6%), dairy products (2.5%), beverages and tobacco (2.1%) and petro-chemicals (1.7%). Other transport equipment (-3.6%), meats -except beef- (-2.4%) and motor vehicles (-2.9%) are the sectors expected to contract most. In the EU-US NTM study, motor vehicles (5.7%), chemicals (2.2%) and insurance are expected to experience the largest increase in percentage terms, while electrical and other machinery (respectively -5.5% and -1.9%) are expected to contract most.

Selection of top sectors for further focus

Four criteria were used to select three top sectors for which a detailed assessment of main barriers to the US market would be made. These four criteria were: a) the share of the top sector's exports in total Dutch exports, b) the share of the top sector value added in total Dutch GDP; c) the existence of EU-US trade barriers in the top sector; and d) the benefits from aligning EU-US non tariff measures (NTMs) in the top sector. On the basis of these criteria, the following sectors were selected: 1) Agrofood and Horticulture; 2) High Tech Systems and Materials; and 3) Chemicals.

Trade barriers and priorities for selected top sectors

For each of the selected top sectors, the main barriers to the US markets were identified and prioritised, based on the importance attached to the barriers by the stakeholders and the relevance of the barrier for the sector (i.e. whether it is affecting the whole sector or only part of the sector). Below we present the main barriers and priorities for each of the selected top sectors.

For **Agrofood and Horticulture (AF&H)**, most barriers relate to the broader areas of customs and tariffs and health & safety requirements. The latter primarily relate to SPS measures which clearly constitute the main non-tariff barrier for trade with the US.¹ Mutual recognition or harmonisation of standards would therefore help to increase market access to the US. However, this will not be easy to achieve. Some barriers, like the ban on beef due to BSE, are unlikely to be removed, also given the EU measures in the sector. It will be important to be aware of the EU barriers to US products in order to assess what could be offered to the US in return for removing certain barriers. Although this applies to all sectors, it is especially relevant for the AF&H sector, given the support and protection this sector gets in the EU (notably through the Common Agricultural Policy).

For **High Tech Systems & Materials (HTSM)**, a large part of the relevant barriers (including restrictions and prohibitions) are taken on the grounds of national security. As there are many dual use products in the sector, these barriers have a significant effect. It will be very difficult if not impossible to remove these barriers, rather the focus should be on facilitating procedures, and increasing transparency and exchange of information. For a number of products in the sector, US standards also differ from EU or even international standards. Here too, it would be good to come to harmonisation or mutual recognition of standards. Increase in access to the market for government procurement is also relevant for the HTSM sector.

For **Chemicals**, tariffs constitute a barrier especially given the large amount of intra-industry trade in the sector. In addition, technical and health and safety requirements are important, and mutual recognition or equivalence of measures would greatly benefit the sector. It is also worth mentioning that stakeholders have pointed to an unequal playing field between the EU and the US due to EU policies, like the sugar quota which drive up sugar prices (sugar is an important input for the chemical industry) and the relatively more strict rules in the EU for state aid compared to the US.

Policy recommendations

The above already contains some sector-specific policy recommendations. If we look at the policy recommendations at a more general level, the following two general barriers appear to be most important to the top sectors: 1) differences in regulations and standards (whether they relate to health and safety or technical measures); and 2) import duties. With respect to the first barrier, the problem is usually not that the standards are difficult to meet (many indicate that EU standards are even higher), but that there are differences between EU and US standards, which cause additional costs and prevent economies of scale, and/or that efforts are needed to prove compliance with the US standards and requirements. The lack of transparency on the requirements itself or the process to get approval for exports or investment to the US also causes uncertainty and extra costs for Dutch companies. It should be stressed that many of the barriers have a long history and/or are part of the culture in the US, and they are unlikely to be eliminated completely. Rather, the goal should be to increase transparency, simplify procedures and reduce the time needed for approval processes, etc.

Tariffs are also identified as priority barriers, notably for AF&H and Chemicals. Although in general they are already low, for some specific products they can be higher and especially in subsectors where margins are small, tariff elimination can still be important.

¹ Differences in EU-US SPS measures are not given the highest priority, but medium priority, which can be explained by the fact that there are also other, more specific SPS related barriers included in the table.