Five questions SME businesses need to ask themselves about TTIP

Summary: In this document, sponsored by the Movement for Responsibility in Trade Agreements, the author asks SMEs to consider five questions in relation to the Transatlantic Trade and Investment Partnership (TTIP) currently being negotiated between the European Union and the USA. Will TTIP be good for Europe's economy overall? Will TTIP be good for European SMEs? Will TTIP advantage large companies' interests over those of European SMEs? Will the lowering of Europe's regulations, a stated goal of the US government, be good for SMEs in Europe? Will TTIP lower SMEs' influence in the process of making regulations? In relation to each of these questions, the author presents facts and commentary which should lead SMEs to be openly skeptical about the claims made in favour of TTIP and to question the wisdom of the European Union entering into this agreement.

Promoters of the Transatlantic Trade and Investment Partnership (TTIP) claim it's good for all business, but is this really true? The European Commission (EC) and the USA say it will especially help SME businesses (Small and Medium-sized Enterprises), not just multinationals. But is this really true? Once agreed it will be effectively impossible to reverse. Since the autumn of 2014, the EC has frequently stated that SMEs stand to get *more* benefit from TTIP than large companies, especially in terms of the removal of "red tape" and burdensome bureaucratic steps involved in exporting to the USA. Strangely, SMEs were hardly mentioned when TTIP was first promoted. European SMEs need to have their eyes open before assuming that TTIP really will be in their interest.

TTIP is being negotiated by the USA and the European Union (EU) right now. The main advocates for TTIP are the large multinationals on both sides of the Atlantic which make up the TABC (Transatlantic Business Council) who have worked for several decades behind the scenes for it to happen. Expensive lobbying firms have been hired in Brussels to sell TTIP to politicians and the media as also good for Europe's 20 million SMEs, which represent 99.8% of all listed companies, employ 66.5% of all employees and account for 57% of the value added to continent's GDP[(1)]. Yet SMEs mostly lack the resources to have an input to TTIP on the same terms as big business. MORE[(2)] believes SMEs need to become more aware of TTIP and what it could really mean for the future of business in Europe. This short document lists the five principal questions which should concern SMEs in particular. They deserve better answers from the European Commission and advocates of TTIP, than they have been given to date.

1: Overall, will the impact of TTIP be favourable to the European economy?

Reports commissioned by European Commission (EC) suggest TTIP will increase Europe's yearly GDP by an average of 0.05% to give an accumulated 0.5% over ten years. Economists have described this as a 'paltry' gain, and a change of 0.05% per year as a 'rounding error'. Even if fully realised, it means an economy which grows on average by 2% per year would grow 2.05% per year with TTIP. Think of your own sales and expenditure projections. How confident can you be of a change, up or down, of 0.05% a year?

However, these modest gains may not come cheap. The EC's reports also forecast that "at least 1.3 million European workers would lose their jobs as a result of labour displacement arising from TTIP under the European Commission's preferred "ambitious" outcome. And that over 680,000 European workers would lose their jobs under a "less ambitious" outcome[(3)]. "Labour displacement", in economists' jargon, means people losing their jobs. It must be reasonable to assume that many of those job losses will take place within SMEs.

The EC's claims have been challenged from many sides. An authoritative report by the OFSE (Österreichische Forschungsstiftung für Internationale Entwicklung – Austrian Foundation for International Development, in Vienna) [(4,5)] pointed out that they had failed to take into account any of the social and macro-economic adjustment costs which TTIP would bring. These could *reduce* the benefits by 40%. Towards the end of 2014, officials from the EC and from European governments began to distance themselves from the figures in the reports they had commissioned, even though they had based their own case for TTIP on these. Then in December 2014, Tufts University in the US [(6)] published the results of an assessment of the economic claims for TTIP, using a United Nations method of evaluating the impact of trade, which suggested a far less encouraging picture than the EC's reports. It foresaw net EU losses of both exports and GDP after a decade of TTIP and a reduction in take-home pay. The Tufts report also forecast the loss of 600,000 jobs.

The macro-economic case for TTIP therefore appears to be very questionable at best.

Given such uncertainties, is it wise for Europe's small businesses to accept TTIP ?

2: Will the impact of TTIP be favourable on Europe's SMEs?

The European Commission asserts that TTIP "will be especially valuable for SMEs, given that trade barriers tend to disproportionately burden smaller firms, which have fewer resources to overcome them than larger firms" (7). The Atlantic Council in its report in November 2014 (8) states that "Given the overarching economic impacts of TTIP (*those mininal benefits cited in answer to Question 1 above*), even non-exporting SMEs stand to gain from an agreement", but gives no figures or analysis to back up this assertion. Is this true? Where is the evidence?

Hard as it may be to believe, it seems there is no such evidence, just claims that it must be good for SMEs. However there *is* evidence from *other* free trade agreements about the impact on SMEs. The most relevant example is the North American Free trade Area (NAFTA), because it involved joining the huge US market to smaller economies of Canada and Mexico.

The US, Canada and Mexico signed NAFTA in 1994. There is now 20 years' data of its impact on SMEs. In their report on NAFTA, the OFSE (9) and CEPR- DC (10) both conclude that the impact of NAFTA on small-scale farms in Mexico was devastating. CEPR writes: "NAFTA …had a severe impact on agricultural employment, as subsidised corn and other products wiped out family farmers in Mexico. From 1991-2007, there were 4.9 million Mexican family farmers displaced, while seasonal labour in agro-export industries increased by about 3 million. This meant a net loss of 1.9 million jobs".

As with TTIP, government officials promised that small businesses would be the major winners from NAFTA. This promise was not held. According to a recent report by Public Citizen, quoting official US government sources: "the growth of US small businesses' exports to all *non*-NAFTA countries *exceeded* by more than 50 % the growth of their exports to NAFTA partners Canada and Mexico from 1996 to 2012…Small firms' exports to Mexico and canada under NAFTA have grown less than half as much as large firms' exports to NAFTA partners (47% vs.97% in the same years). As a result US small businesses share of the total US exports to Mexico and Canada has fallen under NAFTA" [11]. What is also documented elsewhere is the high level of inward investment into Mexico, much of which was made up of US companies (especially in the automobile industry) re-locating to Mexico to take advantage of lower labour rates there, thereby contributing to the loss of some 700,000 jobs in the USA, according to the US Congress [12].

There is no information available at present on the likely economic impact of TTIP on European SMEs, sector by sector, taking into account the combined impact of exports to the USA and imports into their home markets from the USA. Instead, we have a mountain of unsubstantiated claims that "TTIP will be good for SMEs".

So, the question is: given that SMEs account for at least 50% of Europe's GDP and 60% of all the jobs, and given the wide-scale disruption which TTIP would bring, is it wise to put this significant part of our economies at risk?

3: Will TTIP advantage big business's interests over SMEs'?

TTIP wants encourage Foreign Direct Investment by US firms into Europe and by European firms into the USA, on the appealing but perhaps unproven assumption that such investment will lead to jobs and growth. To incentivise companies to invest, it is proposed that TTIP include arbitration tribunals, known as "Investor-State-Dispute-Settlement" (or ISDS), which US companies investing in Europe would be able to call upon for financial redress if they can allege that State regulation has diminished their past, present or future profits. Such a system effectively puts business practice outside the normal processes of law and democracy and is highly controversial.

On such tribunals, which already exist within other trade agreements, three private sector lawyers sit (behind closed doors) and come to a judgement, usually without right of appeal. The threat of being taken before such a tribunal can lead a government to re-consider current or proposed legislation. The overwhelming majority of the 600 or so cases on record which have been heard before such tribunals have been brought by large companies [13]. In many cases, they have been successful in extracting large amounts of financial compensation. For example, Canada was forced to pay out $122 Million to the Canadian company AbitibiBowater, which was using NAFTA rules to sue its own government through its US subsidiary. The company had challenged the decision of Newfoundland and Labrador, a Canadian province, to confiscate various timber, water rights and equipment held by AbitibiBowater after the corporation closed a paper mill in Newfoundland, putting 800 employees out of work

Is ISDS something which SMEs are likely to use? Although EC and US officials argue that nothing would *constrain* SMEs from having recourse to such tribunals, is it realistic? Would a small baker in Germany, a small farmer in France or a small heating and plumbing company in Britain, be likely to put its case to the ISDS? Given that claimants' legal fees have averaged out at $8 Million each time and arbitrators are paid US$600 – 700 an hour (14) it seems unlikely. As not many SMEs could afford this, ISDS appears to be a game for big business, not SMEs. Interestingly enough, Germany's largest independent association of SMEs, the BVMW (Bundesverband Mittelständische Wirtschaft), with 270,000 SME members, has publicly condemned ISDS (15), as being too expensive and cumbersome for its members to use.

But something else might happen, which would also run counter to Euroepean SMEs interests. Because of the protection TTIP gives investors (through ISDS), it could encourage European firms to re-locate their production facilities to the USA to take advantage of lower labour costs. This may pose a risk to SME component manufacturers who have located their plant close to their main client, as is frequent in the automobile sector. They may then lose their core business if their client re-locates to the US. The same would apply to other SMEs who provide goods or services to larger companies. Many US companies took advantage of NAFTA to re-locate to Mexico, as we reported above. So, the investment protection provisions within TTIP appear to be most advantageous to larger companies than to SMEs.

An SME "Chapter" (16) is now being added to TTIP and is under negotiation at the moment. The detail of how TTIP may assist SMEs is not yet known but the early texts suggest this support will include information exchange, websites, and the creation of databases. This support may be marginally helpful to European SMEs wishing to export to the US, but will it sufficient to induce non-exporting SMEs to begin to export?

According to the Atlantic Council "only 25% of Europe's more than twenty million SMEs export beyond their national borders – and only 13% export beyond Europe." Exports to the USA constitute only a small part of the % SMEs contribute to Europe's GDP. If TTIP doubled that % (to be very optimistic), the net uplift this would give to European GDP would still be negligible. In addition, many SMEs have spent years, sometimes generations, building up contacts sustained through good business practice, with local, regional, national and European customers. While some export beyond Europe, many SMEs do not have the internal resources or risk capital to invest in sales forces to deploy to the US, nor perhaps the need to do so. Many of their goods and services are also tuned to European markets. A blanket assumption in economic modelling that the US and local European markets are equivalent in all respects may apply to manufacturers of internationally circulated goods such as cars but will probably not apply to products such as food which is affected by local, regional and national cultures. This has not been accounted for in the simple economic models behind TTIP.

The question then becomes: why does the EC choose not to tell us which companies TTIP was really designed to assist, and is it a company like yours?

4: Will the lowering of European regulations be a good for European SMEs?

TTIP is <u>not</u> like other trade agreements you may have heard of. Reducing 'tariffs' (customs charges) further is actually a side-show and not its main function. Its main purpose is to eliminate or to "harmonise" (in effect, to lower) regulations in the areas such as food quality, health, safety, nutrition and environment, in the USA and in Europe, which constitute, in the language of official EC documents "barriers" and "irritants" to trade. While removing inefficiency and duplication is a laudable goal, which SMEs would doubtless heartily support, the question which will be of great interest to SMEs is: What commercial impact will this removal of "barriers to trade"have on my business?

Let us assume that US companies, which manufacture products or services to less demanding (and therefore cheaper to satisfy) regulations, will be able to offer products profitably at a lower price than European companies, which have had to satisfy higher regulatory hurdles. If this is true, then these US companies should be able to take significant market shares from SMEs in many sectors. SMEs would then be faced with two equally unpalatable options: either cut their cost base by as much as 30%-40% (the average difference in US-EU salaries) to remain competitive, or totally transform their offer and production systems in short order. After a few years of fruitless struggle, many SMEs would possibly go to the wall, and close up shop, bringing about job losses and devastation to many of the communities which these businesses support. It is worth remembering that over 60% of all workers in Europe are employed by SMEs.

Overall, SMEs should, if the above is even half-way accurate, be concerned about the lowering or elimination of regulations which TTIP aims to achieve. Interestingly, the official bodies which represent SMEs in several large European countries (the FSB in the UK, the CGPME in France, the DIHK in Germany) are openly supportive of TTIP, and yet they have not made a convincing economic case for TTIP specifically for SMEs .

The question is: Why is nobody in authority aware of this potentially disastrous outcome for SMEs, and if so, ready be honest with SMEs about how TTIP could this affect their business ?

5 : Will TTIP reduce SMEs' influence over the regulatory process?

One of the main planks of TTIP will be to establish a process for "regulatory co-operation", whereby regulators from both sides will discuss together regularly and decide which regulations and standards need to be changed, or can be introduced in the future. According to the EC's proposals [(17)], which were published in January 2015, various "stakeholders" including large companies and presumably SMEs (or more likely just their trade associations), would be consulted at various stages before new regulations are authorised by this process. It is intended, in the words of the EC's previous Commissioner for External Trade, Karel de Gucht, that TTIP should become a "living document", that is, one that is constantly re-making regulation to favour trade.

This invitation to companies to have a voice, and perhaps even a veto, in the process of regulation-making is a significant departure from existing democratic process in Europe. According a report [(18)] by the respected Brussels-based Corporate Europe Observatory, this "regulatory Co-operation" process is likely to further dilute democracy in Europe, and create more distance between less well-protected citizens, including SMEs, and those people who have power to introduce laws and regulations.

Most SMEs do not play a huge role in their trade associations even if they are in one. Many directors or owners of SMEs are are too busy running a small enterprise to have time for such things. A number of them will be in business groups which also include far larger enterprises. In effect, SMEs are perhaps even less involved with deciding the shape of TTIP than ordinary citizens, and must rely on politicians to speak up for their interests.

The questions before us seem to have become: Why would European governments and their Parliaments support such a dilution of their power and is that in everyone's interest in Europe?

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