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The Trade Sustainability Impact Assessment (TSIA – interim technical report)

for the Transatlantic Trade and Investment Partnership (TTIP)

Feedback

Introduction

This submission pinpoints a number of shortcomings of the TTIP TSIA and highlights aspects with regard to SMEs, which have been neglected and should be considered in further analysis, i.e. the final TSIA.

Untimely, unrealistic and unbalanced on regulatory measures

TSIAs are supposed to integrate sustainable development issues into trade policy[1] by assessing, in depth, the potential economic, social and environmental impacts of a proposed trade agreement - while the agreement is still being negotiated. The TTIP TSIA comes at a point - after the 13th negotiation round – when 17 of 27 potential chapters had reached the stage of 'consolidated texts'[2], i.e. approaching some form of agreement. So this TSIA comes too late to have the desired impact in many areas.

The TTIP TSIA acknowledges the limitations of the Computable General Equilibrium (CGE) model, but nevertheless uses it and without compensating for its shortcomings. The CGE centres on the interaction between the production and trade of goods and services and assumes full employment, high labour mobility and market-clearing prices – conditions whereby whatever is produced will always find a buyer, whatever money is earned will be immediately spent and people who loose their jobs will find new ones at no cost to themselves or the state. This model can only inform within the boundaries of its unrealistic assumptions.

The TSIA looks at regulatory measures only from a commercial cost perspective. It treats legislative and regulatory measures taken for social and environmental protection as much as barriers to trade as administrative or bureaucratic requirements. This tarring of all regulation with the same brush is inadequate.

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1 Page 7 http://trade.ec.europa.eu/doclib/docs/2016/april/tradoc_154464.PDF

2 Page 4 http://trade.ec.europa.eu/doclib/docs/2016/april/tradoc_154477.pdf

The TSIA also overemphasises the importance of non-trade barriers as perceived by businesses. It bases itself on an online survey, which was designed to identify export barriers faced by EU SMEs in the US market[3]. However, the limitations of relying on survey information to identify regulatory barriers were acknowledged in the final report by the High Level Group on Administrative Burdens[4]. This report looked at the administrative burdens perceived by enterprises and compared these to the actual costs of these potential barriers. Environment related measures accounted for less than 1% of the total estimated burdens. "However, businesses perceive the burden to be much higher in this area" (environment)[5].

The TSIA fails to take these precautions into account. The TSIA over-interprets the significance of the survey by relying on the perceptions of a biased selection of SMEs: In the survey, 3 out of 4 SMEs (74%) are exporters to the US. In reality only approximately 1 in 140 (0.7%) of all EU SMEs exports to the US. Since there was no process to avoid sampling biases nor an attempt to complement the very narrow scope of the survey and its results, the survey conducted by the EC cannot provide information on the preferences of EU SMEs as a whole.

Broader surveys with a balanced sample of SMEs and a more comprehensive set of questions on the expected value of TTIP would have worked better. The surveys by the German Federation of Small Businesses (BVMW)[6], Crafts International of Baden-Württemberg[7] and the Business Growth Foundation[8], for example, are better suited to the objectives of the TSIA to understand the effect of TTIP on SMEs.

Misleading about SMEs

The TSIA states that: "It seems that the sectors that will gain the most in terms of output and export are not the sectors in which most SMEs are active[9]", or conversely, that TTIP would boost sectors where SME participation is weak. This contradicts the claim often made by the EC that SMEs will be the biggest beneficiaries of the TTIP agreement. Given that SMEs are also considered 'the backbone of the European economy, the TSIA findings hardly paint a picture of a sustainable, diverse and resilient economy.

The TTIP TSIA nevertheless explains the EC's controversial claim with the following logic:

> (A) Because of their comparatively limited resources, measures affecting businesses are proportionally larger for smaller enterprises. In other words: "A single barrier may be a cost factor for large firms which they will try to reduce or avoid (e.g. by locating locally instead of exporting) but could prove prohibitive for an SME[10]".
>
> (B) Reducing costs – or increasing benefits - will have a proportionally bigger effect on smaller businesses.
>
> (C) SMEs will benefit from TTIP.

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3 Page 12 http://trade.ec.europa.eu/doclib/docs/2015/april/tradoc_153348.pdf
4 http://ec.europa.eu/smart-regulation/refit/admin_burden/docs/08-10web_ce-brocuttingredtape_en.pdf
5 Idem. Page 34
6 http://www.bvmw.de/nc/homeseiten/news/artikel/umfrage-deutsche-unternehmer-fordern-aenderungen-beim-freihandelsabkommen.html?L=0
7 http://www.handwerk-international.de/media/d672ed9d-05c3-4a27-a7cb-c3d784666539/TTIP/HI_TTIP-Umfrage2015_Ergebnisse_pdf
8 http://thebusinessgrowthfoundation.co.uk/bgf-opinion/ttip-facts
9 Page 106, TSIA Interim Report
10 Page 106, TSIA Interim Report

(A) and (B) are unmistakably true. However, together they are a generalisation that is insufficient to claim (C).

The TSIA concludes in the same logic that TTIP would be beneficial for SMEs provided that it lowers “trade barriers” and facilitates clear information on access to the US market. On the last point the TSIA uses an EC Survey and a few selected articles to endorse the two components of the TTIP’s SME chapter, namely an SME portal and an SME committee.

Once more this implies a cause-effect relationship that does not exist. As recommended by the European Economic and Social Committee[11] a closer look should have been taken at how TTIP would affect both exporting and non-exporting SMEs and trade across Member States.

Moreover, according to the 2014 SBA Performance Review, European SMEs are already among the most internationalised in the world with estimates of at least 1 in 4 businesses in Europe exporting[12]. 13% of EU SMEs export outside the EU. Furthermore 42% of European SMEs are engaged, in some way, with international markets – importing, exporting, receiving foreign investment, etc. Yet, the SBA Review estimates that of those SMEs engaged in international markets, only 1 in 10 Euros of their income comes from non-EU trade. What is clear from the SBA Review is that an exporting SME does not mean an SME dependent on exports. Successfully internationalised SMEs take advantage of all the markets at their disposal.

Free trade agreements should avoid establishing market disruptions for SME growth opportunities as exporters. Recent analyses of SME export growth under preferential agreements in the US – NAFTA and US-South Korea – show that in reality SME exports grew less than expected under these agreements[13]. In fact, the trade agreements have helped further consolidate the market power of larger enterprises. This in turn can increase de-facto market barriers due to the competitive pressure that large transnational corporations can establish. These results for US SME growth as exporters should act as a cautionary tale of just how important it is to understand the effect of trade agreements.

Improving the analysis of the impact of TTIP on SMEs

(1) Ensuring EU policy coherence

There are several EU policies targeted at enhancing the competitiveness of SMEs in the European Single Market. The Single Market is the economic and political cornerstone of the union and the foundation of successful SMEs. As such TTIP must be in line with existing policies and programmes.

The Small Business Act[14] (SBA) framework, for example, is the key policy tool for monitoring and implementing SME-friendly policies in the EU. One of its central features is the “Think Small First” principle, which is meant to guide decision makers to develop SME-friendly legislation. The “SME Test” – a set of guiding requisites to analyse the possible effects of EU legislative proposals on SMEs[15]- serves to apply this principle. The TTIP TSIA would have needed to deliver analysis along similar lines instead of only scratching the surface of the potential effects of TTIP on SMEs.

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11 http://www.eesc.europa.eu/?i=portal.en.rex-opinions.35345

12 http://ec.europa.eu/DocsRoom/documents/16121/attachments/1/translations/en/renditions/native

13 http://citizen.org/documents/prosperity-undermined.pdf

14 http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

15 http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/sme-test/index_en.htm

Neither should TTIP undermine what good the EU is trying to deliver through programmes such as COSME (Competitiveness of Small and Medium-sized Enterprises), the European Social Fund, the Employment and Social Innovation programme (EaSI), the European Regional Development Fund and Horizon 2020.

(2) Considering impacts on intra-EU Trade Dynamics

TTIP is set to change the dynamics of trade between and across EU Member States. It could begin a qualitative reordering of productive value chains in Europe. This was a key finding of the GED-Bertelsmann[16] study, which the TSIA chose to ignore. By contrast, it chose to explore possible trade diversion in relation to possible effects in developing economies.

As shown in a comparative study of TTIP research: "The overall positive impact of TTIP on total exports conceals large trade diversion effects"[17]. CEPR[18] and CEPII[19] both report a negative effect on intra-EU trade as a consequence of increased imports from TTIP. The TSIA itself points out that macroeconomic effects would be different depending on the already existing degree of trade relations with the US[20].

TTIP would intensify the structural asymmetries between Member States' economies. The asymmetrical economic growth amongst EU Member States is a long-standing issue in the EU policy debate[21]. These developments in turn feed the crisis of democratic legitimacy of the EU institutions and further fuel the rise of extreme political factions[22].

(3) Taking into account the complexity of SME Internationalisation

The TSIA argues that: "many SMEs do not export to the US (or export at all) at the moment, due to tariffs and burdensome trade barriers and the lack of resources and capacity to deal with them"[23]. The TSIA goes on to state that: "given this large share of non-exporting enterprises – to the US - liberalizing trade between the EU and the US could definitively have a positive impact on SMEs". However, this is a very simplified view. To assess the effects of a potential TTIP on SMEs there must a thorough understanding of why and how SMEs engage with international markets. The differences in the size – and resources - of enterprises are a key factor in understanding how enterprises interact with global markets.

The TSIA would benefit from incorporating into its analysis the internal and external challenges in a business that might prevent it from exporting. Language and culture represent a major barrier for SMEs who have less capacity to incorporate the skills and expertise needed to enter a new market. Human capital can be different between Member States, and geographical distances continue to have an impact on costs across the EU. This means that the capacity to realise certain possibilities is different across EU Member States.

The TSIA simplified conceptualisation of why and how SMEs decide to export has an impact on the overall conclusions on SMEs. The TSIA endorses the creation of an SME portal to facilitate access to information on procedures, regulations and standards across the US. The TSIA also endorses the vague commitment to set up a transatlantic SME committee.

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16 http://www.bfna.org/sites/default/files/TTIP-GED%20study%2017June%202013.pdf
17 http://www.guengl.eu/uploads/plenary-focus-pdf/ASSESS_TTIP.pdf
18 http://trade.ec.europa.eu/doclib/docs/2013/march/tradoc_150737.pdf
19 http://www.cepii.fr/PDF_PUB/pb/2013/pb2013-01.pdf
20 Page 75 – 83.
21 In relation to industrial policyhttp://web.unitn.it/files/download/34529/paperalbertobotta-structuralasymmetriesandindustrialpolicyintheeu.pdf ; In relation to Eurozone http://voxeu.org/article/problems-eurozone
22 http://ec.europa.eu/economy_finance/publications/eedp/pdf/dp015_en.pdf
23 Page 110, TSIA Interim Report

Recent research for the European Parliament found that there is an overabundance of EU and Member State sponsored schemes, organisations and portals for SME internationalisation[24]. These tend to be poorly coordinated and resource intensive - and there is limited monitoring and evaluation of their activity and effectiveness. On the last point, the report states that “this is somewhat alarming given that it is this very evidence that would enable appropriate policy improvement”[25].

There is no explanation on the published information by the EC or the TSIA analysis of the difference between the responsibilities of the SME portal for TTIP and the ongoing work of existing EC programmes such as the Enterprise Europe Network.

There is also no mention of why a potential portal for SMEs to access information would require the establishment of a trade agreement. There are portals on China and Japan fulfilling this specific role without the presence of a trade agreement.

Theoretically the SME portal could play a positive role in furthering market access for SMEs in the US. In practice, there is little evidence to support the level of optimism showcased in the TSIA conclusions on this point.

Finally, the report prepared for the EP goes on to demonstrate that in reality “most SMEs appear to internationalise without engaging with the government apparatus of support, either at EU or member state level”.[26]

Conclusion

Based on the right set of premises, a TSIA could be an outstanding tool to show negotiators a full view on the economic, social and environmental prospects from a trade agreement. The TSIA for TTIP can and must improve upon its work if it is to achieve this goal.

The analysis and recommendations in relation to TTIP and SMEs are a strong case in point. The TSIA must incorporate the three broad areas discussed as a first step towards a realistic evidence-based conclusion on how SMEs across the EU would be affected by the proposed TTIP.

International trade policies must complement efforts by the EU and Member States to increase the competitiveness of SMEs in the Single Market. Intra-EU trade is the natural platform that allows SMEs to grow as global exporters. Stronger SMEs mean a strong, resilient economy - a European economy that can adapt and outgrow the crisis.

Policies like TTIP need to be mindful of the political challenges facing the EU institutions. The European economy cannot afford policies that encourage further growth asymmetry between EU members. Europe needs to ensure true common benefits. Extreme political sentiment will continue to grow unless EU policies look for responsible and fair growth paths.

The overwhelming public opposition to several substantive aspects of TTIP and the current trade agenda provides an opportunity for reflection and consideration. The TSIA is well placed to put these considerations into action.

The TSIA should not stand as a tool to show how to mitigate the costs of a policy but encourage the right type of policy. As a former chief economist to US Vice President Biden

[24] http://www.europarl.europa.eu/RegData/etudes/STUD/2016/535025/EXPO_STU(2016)535025_EN.pdf
[25] Idem. Page 7
[26] Idem

stated: “Economic platitudes about how trade is always worthwhile as long as the winners can compensate the losers are an insult in the age of inequality”[27].

The TSIA should stand as a tool to encourage true progressive, responsible and inclusive transatlantic trade relations; even if, in the end, this means admitting that the only way forward is to start again from scratch.

[27] https://www.washingtonpost.com/posteverything/wp/2016/05/12/getting-straight-about-the-costs-of-trade/