

## RTA Exchange News Digest

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Activity on regional trade agreements (RTAs) was particularly intense during April 2016. Early in the month, the [World Trade Organization \(WTO\)](#) renewed its efforts to have greater knowledge, if not control of trade agreements concluded by its member countries, and discussions started on the ratification of the recently signed [Trans-Pacific Partnership \(TPP\)](#). At the same time, negotiations gained momentum to put in place another mega-regional deal, the [Transatlantic Trade and Investment Partnership \(TTIP\)](#), between the United States and the European Union. When completed, these agreements would redesign the world map of trade agreements in a very significant way.

The focus of attention shifted during the latter part of the month to the coming referendum on whether the United Kingdom should remain in the European Union (EU) – the so-called [Brexit debate](#). Although the EU is usually not thought of when discussing regional agreements, and it is, admittedly, an RTA *plus* agreement in many different ways, the outcome of the UK debate will have important repercussions all over. Thus, no wonder that President Obama made this issue a high topic of his official visit to England, and that the UK government, political parties and different interest groups began participating in a debate that would intensify as the date of the referendum – June 23<sup>rd</sup> – gets closer.

#### THE WTO IS ON THE MOVE AGAIN



In early April, WTO member countries renewed attempts to deepen scrutiny of regional trade agreements (RTAs). In line with instructions laid out at the [Nairobi Ministerial Declaration](#) last December, the [Committee on Regional Trade Agreements \(CRTA\)](#) met to discuss the systemic implications of the growing number of RTAs for the multilateral trading system, and the impact of those agreements on WTO rules. The ministers specifically asked the CRTA to work towards the transformation of the provisional [Transparency Mechanism](#), which is used to review RTAs, into a permanent one.

The Transparency Mechanism for RTAs was established by the WTO General Council in December 2006 on a “provisional” basis. It provides for early announcement by WTO members of negotiations intended to conclude RTAs, notification of existing RTAs and the preparation of factual presentations on these agreements by the WTO Secretariat. Work in this regard is, however, lagging behind. According to a [paper presented by the United States \(see file WT/REG/W/103\)](#) to a recent meeting of the CRTA more than 70 existing trade agreements are pending for notification, while [reports on implementation \(see file WT/REG/W/101\)](#) of a great number of regional trade agreements are according to the WTO Secretariat still pending.

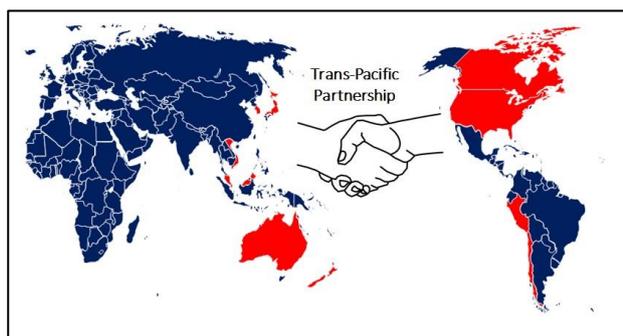
So, this apparently simple and clearly stated objective of WTO ministers – overseeing regional agreements - is not without objections from some countries, and there is no indication that WTO members will this time be more successful than in the past. This would be regrettable, as affecting the daily work of the WTO and hindering its negotiation outcomes is the fact that many WTO members, big and small, have tended in recent years to focus on the negotiation of a number of ambitious multi-country trade agreements, such as the [TPP](#) and the [TTIP](#), thus reversing earlier RTAs trends, where bilateral agreements prevailed.

The mega-regionals have the potential, due to the sheer size of the countries involved in the negotiations and the nature of some of the “regulatory” issues under consideration, to significantly expand the scope of the international trading system by setting up standards that would apply initially only among those countries. However, once the mega-regionals are completed and new regulatory issues are agreed upon by the participant countries, the newly agreed standards will not be easy to modify in WTO negotiations or elsewhere.

The risk of a new “fragmentation” of the multilateral trading system with different standards adopted by different sets of countries is reminiscent of the one experienced after the Tokyo Round of negotiations, and the adoption of “codes” on a number of non-tariff barriers by a group of mainly developed GATT members. Thus, behind the ministerial decision to better oversee RTAs there is the concern that trade decision-making moves away from the WTO towards these new RTAs, where a selected group of countries, both developed and developing ones, representing a large share of global trade, would set up new standards in areas not yet covered or insufficiently covered by the WTO. And it is this concern that would be worth for the CRTA committee to focus on this time.

### WILL THE TPP EVER BE RATIFIED?

By [signing](#) the Trans-Pacific Partnership agreement in Auckland, New Zealand, on February 4, the twelve countries that for the last five years have been crafting the deal have moved the TPP process to the next stages: ratification of the trade pact by the signatory countries and, once this is completed, the entering into force of the agreement.



The [TPP countries](#) together represent nearly 40 percent of global GDP and a third of world trade, and the agreement is perhaps the most comprehensive and ambitious free trade agreement ever negotiated. It is also the first “mega-regional agreement” concluded, and it involves both developed and developing countries from the Americas and the Asia Pacific region.

In a way, the whole TPP process can be seen as three-acts opera, with the first one completed in October 2015 when the TPP text was agreed by the top negotiators from the participant countries, and the second one performed at the Auckland ceremony. Now comes the third, and arguably, the toughest part: ratification of the deal.

There are two paths for the TPP to come into force. The first one is simple and straightforward: the TPP will become binding two months after all the signatory countries complete their own domestic

ratification procedures. Alternatively, the TPP would come into force if at least six signatory countries, which between them represent at least 85 percent of the total GDP of the whole group, have ratified the agreement within two years of its signing in Auckland.

However, it is when adding the numbers that it becomes clear that the countries whose ratification is key for the TPP are the United States and Japan. While these two countries together cannot reach the 85 per cent of GDP threshold, the two of them are required for the agreement to enter into force. The entering into force of the TPP cannot be achieved even if all the other 10 signatories ratify the agreement and are joined by either the US or Japan – these two countries are needed to complete the process.

Thus, the future of the TPP is in the hands of the legislative process in both Japan and the United States. [TPP debate kicked off in the Japanese parliament](#) as it began debating the TPP and related legislation, taking on what will likely be the biggest issue before the Diet during the current session. Prime Minister Shinzo Abe is pushing to get the bills passed within the session, arguing that the trade agreement will provide a sustained 14 trillion yen (\$126 billion) boost to gross domestic product. Parliamentary [discussions on the TPP however may be delayed](#) until after elections in July.

In the United States the proximity of this year's presidential election, and domestic opposition to the deal – not the least by the leading contenders in both the Republican and Democratic parties – makes it uncertain that the deal would be debated in the Congress this year. The [alternatives](#) vary and many consider that the most likely period for congressional debate on the TPP is the "lame luck" session, i.e. after the Presidential election in November and before the start of the new government. And to the date of closing this April 2016 issue of the [RTAsNewsDigest](#), no information was available on the ratification status in other [TPP countries](#).

## THE NEVER ENDING NEGOTIATIONS ON THE TTIP

From 25-29 April took place the thirteenth round of the [Transatlantic Trade and Investment Partnership \(TTIP\) negotiations](#). This round of talks represents according to the European Commission an additional step in the very intensive period of the talks which started at the beginning of this year. The objective of this round will be to reach a sufficient level of maturity in all areas of negotiations to be able to move to the next stage, the so called 'end game'.



The announcement of the new round of TTIP talks came after a [meeting](#) in Berlin on 5 April 2016 between Federal Chancellor Angela Merkel and the heads of key international organizations: OECD Secretary-General Angel Gurría, IMF Managing Director Christine Lagarde, World Bank Group President Jim Yong Kim, ILO Director-General Guy Ryder and WTO Director-General Roberto Azevêdo, which inter alia, expressed strong support for the TTIP negotiations.

It is clear that EU and U.S. negotiators are trying to conclude the agreement leaves office at the beginning of 2017, but the window of opportunity is ready to close: if there are no results by early

next year, the deal risks being delayed another two or three years — or completely falling apart. Concern is growing that the [TTIP negotiations could get bogged down](#) in the toxic mixture of elections and a change of administration in the U.S. and elections in two major EU countries — France and Germany — where critics of the TTIP will surely exploit public mistrust of the deal in their campaigns.

[France leads in Europe the toughest positions vis-a-vis the TTIP](#). Both, President François Hollande and Prime Minister Manuel Valls have publicly indicated that France reserves its right to say “no” if the agreement does not “preserve” French interests, which seem to refer mainly to its agriculture and cultural identity but include issues of reciprocity on financial services and government procurement as well.

An ambitious US-EU free trade deal will fail without clear quality guarantees, [Premier Valls warned on April 26](#). "I want to be clear: (the TTIP)...will not succeed if it does not guarantee that the (quality) standards we have in France for our citizens' health and environment are maintained", Valls told an environmental conference in Paris.

It is not difficult to see why [agriculture](#) would be a critical issue in the TTIP negotiations for both the United States and Europe. While the United States had a \$16 billion agricultural trade surplus with the rest of the world in 2015, it ran a record \$12 billion trade deficit in farm and food products with the European Union (EU), up 15 percent from 2014.

No wonder why Secretary of State John Kerry thinks that TTIP (and the TPP) are integral to the international interests of the United States. In his own words, he considers that “without a doubt, these trade agreements are at the center of defending our strategic interests, deepening our diplomatic relationships, strengthening our national security, and reinforcing our leadership across the globe,” said [Kerry in an address to the Pacific Council on April 12](#). “And the importance, my friends, cannot be overstated”.

For their part, [US President Barack Obama and German Chancellor Angela Merkel stepped up their campaigns for a US-European Union trade deal](#) by calling on April 24 for action to accelerate talks to conclude the agreement. "We need to get a move on" to bring to an end the three years of negotiations to complete the TTIP, said Merkel at a joint press conference with Obama. "It is indisputable that free trade has strengthened the US economy and also has brought enormous benefits to countries that engage in it," said from his part Obama, who joined Merkel for the opening of the annual Hanover Messe - the world's biggest industrial trade fair. The United States, which last year replaced France as the main destination for German exports, is for the first time the fair's partner nation.

The future of the TTIP negotiations looks to be also affected by the public controversy generated by a [“leaked” document](#) stating the US position “on some key issues in the negotiations, which is being used by a group of NGO activists opposed to the deal to rally public support for their stand on the “negative” impact the deal may have on, inter alia, environmental and health issues.

## BREXIT: A DIVORCE SETTLEMENT WON'T BE COSTLESS

As the official launch of the campaign on the referendum regarding Britain's membership of the European Union started on April 15, the political debate heated on and is expected to intensify in the coming weeks up to June 23<sup>rd</sup>, the day of the referendum.



A high point in this debate came when a [UK Treasury study](#) was released which, inter alia, claimed that the British economy would shrink by 6 percent by 2030 if the UK leaves the EU, costing every household the equivalent of £4,300 a year. As pointed out by Treasury Secretary George Osborne, the study left no doubts about the consequences of Britain leaving the UE: based on different scenarios (leaving the EU but negotiating instead a bilateral trade agreement with it, joining the European Economic Area (EEA) or staying purely within the existing rules of the WTO), the

Treasury analysis points out that UK GDP would be lower outside the EU in percentages that vary between 3.8 and 7.5 per cent in 15 years compared with its size today. The findings and arguments of the Treasury study were, as expected, rapidly [challenged](#) by the pro *Brexit* campaigners.

It was, however, the intervention of President Obama, paying an official visit to London that gave new contours to the debate. In an article newspaper, Barack Obama urged Britain to stay in the EU, saying the world needed the UK's influence within Europe. In his article, the US president highlighted the special relationship between his country and the UK "forged as we spilled blood together on the battlefield". "As citizens of the United Kingdom take stock of their relationship with the EU, you should be proud that the EU has helped spread British values and practices - democracy, the rule of law, open markets - across the continent and to its periphery," he said.

As US Trade Representative Mike Froman had previously indicated, the US is concerned as well that Britain's June referendum and political problems elsewhere in Europe may be undermining the prospects of a new transatlantic pact. In an interview with the Financial Times ahead of Mr. Obama visit to Europe, Froman said that the opportunity to conclude negotiations for the TTIP was slipping away. "There really is this window of opportunity which isn't necessarily going to be there forever" and European leaders "need to provide the kind of political impetus necessary to break through on some of these issues".

As if setting the stage for that would not abate, if at all, after the June referendum, Jeremy Corbyn, the leader of the Labour Party joined the anti-Brexit campaign making clear in a public [intervention](#) that that his party was strongly in favour of the UK staying in the EU, emphasizing the "socialist reasons" why staying in the EU would imply a better protection of worker's rights, the environment and British consumers.

There is little doubt if any that the Brexit debate would dominate British politics in the months ahead, and this [RTAsNewsDigest](#) will keep following a debate whose outcome will have consequences well beyond Britain.

## MISCELLANEOUS RTAs ACTIVITY OR RTA ACTIVITY BEYOND THE MEGA-REGIONALS

RTA activity during the month of April was not limited to the agreements and/or negotiations mentioned above, although no doubts public debate and interest on them was particularly notable, and will intensify in the coming months. The TPP ratification process, the TTIP negotiations and, particularly the *Brexit* debate will continue, and will become even more polarized as two key dates get closer, the UK June 23 referendum, and the coming November US presidential elections and the subsequent change of administration in early 2017, which are “politically” fixing the time limits of all this.



Other RTA-related activity will also gain some prominence in the weeks ahead: the possibility of a [renegotiation of the NAFTA agreement](#), arguably the first of modern multi-country free trade deal and which needs some updating after almost 20 years of existence, as indicated by Canadian Prime Minister Trudeau; the intensification of the negotiations to conclude the [Regional Comprehensive Economic Partnership \(RCEP\)](#), and the push for [new trade negotiations with the EU](#)



called for by Mercosur, Mexico and Korea, among others. Whether these RTA initiatives would have any impact on the work of the WTO which was referred to at the beginning of this first issue of the [RTAsNewsDigest](#) remains to be seen.

