INTRODUCTION*

by Annamaria Simonazzi, Michele Faioli

The TTIP (Transatlantic Trade and Investment Partnership) follows the experience of other agreements which are currently under negotiation (Europe and China, Europe and Japan, USA and the Pacific countries – Trans-Pacific Partnership, TPP) or have been concluded recently (Europe and Canada – Comprehensive Economic and Trade Agreement, CETA, concluded in 2014). The strategic objectives of these agreements are in line with the idea that Europe and the USA can keep playing the role of standard makers – even in the medium-long term – rather than running the risk of becoming just standard takers. In the opinion of the proponents of such agreements, this would impact on the capacity of the EU and the USA to cope with global competition with emerging economies in a more effective way.

In fact, research studies that have tried to estimate the effects of the TTIP on the European GDP growth rate (cf. Celi in this journal issue for a full list) come to the conclusion that its impact is rather limited (from 0.32% to 1.31% of GDP in 10 years). The reasons are clear: USA-EU trade tariffs are on average very low, and little or nothing can be obtained by eliminating them. About 80% of economic effects hinge upon the reduction or harmonization of non-tariff measures (NTMs), i.e. regulations, administrative procedures, and standards.

Herein some problems arise, which concern the estimate of direct effects on trade and of indirect effects on GDP and employment, as well as the possibility of actually reducing them, taking into account the impact of regulations on social welfare (e.g. health or environmental standards in sensitive sectors, such as food and drinks, pharmaceutical products, chemicals, cosmetics). Most studies consider a decrease in NTMs of 25-30%, which is unlikely to occur. The agreement, in fact, can reduce only those NTMs that are due to policy interventions (e.g. different approval procedures for cars), which account for a small percentage of total costs (3% according to a study). Conversely, the agreement does not have effects on other types of barriers, such as language, cultural preferences, and tradition, which account for 30% of total costs.

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* Adam Smith's quotation – «To widen the market and to narrow the competition is always the interest of the dealers» – is borrowed from D. Mügge (2010), *Widen the market, narrow the competition: The emergence of supranational governance in EU capital markets*, Universiteit van Amsterdam, Amsterdam. See also A. Simonazzi, A. Ginzburg, *The interruption of industrialization in Southern Europe: a center-periphery perspective*, in M. Baumeister, R. Sala (eds.), *Southern Europe? Italy, Spain, Portugal, and Greece from the 1950s until the present day*, Campus (forthcoming).

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The main models assume that at the new equilibrium, employment remains constant or increases. This result is built-in in the model itself: computable general equilibrium (CGE) models are indeed full employment models. According to these models, price flexibility ensures equilibrium in all markets, including the labor market. Furthermore, it is assumed that workers employed in sectors subject to competition from imports who lose their job because of the TTIP will be re-employed in expanding sectors, with risible costs in terms of lower wages, lower tax revenues, and higher public expenditure in training and retraining measures.

Reality is different. In addition to the benefits in terms of trade creation, we have to consider the adjustment costs: workers made redundant in losing sectors have to be re-employed in winning sectors. The cost estimate is obviously far different if we use models assuming an automatic tendency to full employment (which have been used by almost all these studies) or if we take into account the effects 'in the transition': there might then be long-lasting negative effects on employment and unemployment (for instance, re-employment of some older workers will be difficult) as well as higher costs (in terms of retraining and unemployment benefits), lower public revenues (income taxation and social contributions), and lower tariff revenues (an estimated EUR 20 million in 10 years). The adjustment will be much more difficult and the costs to be shouldered by public finances much higher in a period of crisis and high unemployment. On the basis of the United Nations Global Policy Model, which incorporates more sensible assumptions on macroeconomic adjustment, employment dynamics, and global trade, Capaldo (in this journal issue) projects that the TTIP, implemented in a period of austerity and low growth, will lead to a contraction of GDP, personal incomes, and employment as well as to an increase in financial instability and a continuing downward trend in the labor share of GDP.

Focusing her analysis on southern European countries, Sabine Stephan comes to the same conclusion, while Marina Camille Best, Marita McGrory, Anneloes Pronk and Claire Stevenson take a more optimistic stance: after examining a wide range of formal and informal actors and discussing gains and risks of the partnership also for third countries, the authors conclude that the economic benefits of the TTIP are likely to outweigh its drawbacks.

The traditional argument supporting free trade – according to which it would lead to a more efficient re-allocation of resources – disregards the fact that this process produces winners and losers among workers with different qualifications, education, and sectoral specialization, at the level of workers and firms, and among firms, sectors, and countries.

Will the smallest enterprises be as capable of benefitting from international trade as large multinationals are? Will they be able to face up stiffer competition, considering that it is increasingly based on quality, innovations, patents, and market penetration also through direct investments?

Which sectors will be the winners? And which ones will be the losers? For instance, the European Commission estimates that European agricultural exports to the USA will increase by 60% by 2025, against an increase of 120% in US exports to Europe. This could drive out of business thousands of SMEs whose main market is Europe and their own country.

Direct effects of the opening to trade will affect the whole industrial sector through value chains that link each and every leading company to its supplier network. The reduction of hindrances to trade and investments will impact on the pattern of location advantages: all of this could result in changes in the supply chain, crowding out former suppliers and producing negative effects for SMEs placed in a specific geographical and national context within the value chain. Southern European countries have already experienced the effects of trade diversion following the EU expansion to the east.

When assessing possible effects, we should also make a distinction between the aggregated impact, i.e. the impact on the European Union as a whole, and the impact on single countries (in our case Italy). The two types of effects could be far different. Who wins and who loses within the EU? Research conducted by the Bertelsmann Foundation and by CEPII (*Centre d'Etudes Prospectives et d'Informations Internationales*) shows that southern and central-eastern European countries (including France) generally draw fewer benefits compared to Germany, the United Kingdom, and northern European countries. More competitive countries would therefore reap the most benefits: the unequal distribution of benefits could stir up conflict among Member States. Differences are even more pronounced when we consider the effects at sectoral level. However, the division between winners and losers stays unchanged. Furthermore, the increase in USA-EU trade would partly occur at the expense of intra-EU trade (which, according to a research study, is expected to fall by 30%) in as much as exports within the EU are replaced by cheaper imports from the USA. Trade between Europe and third countries, too, is expected to decrease.

Finally, the assumption that the reduction of NTMs increases competition, leading to a reduction in domestic prices, is not self-evident; besides, it is highly doubtful that these agreements will lead to increased price competition in all sectors. For instance, in the case of the TTIP, US priorities mainly concern the adoption of stricter rules on intellectual property protection (scope and term of patents in specific sectors such as pharmaceuticals, culture and entertainment, and internet and new ICT). In the case of the pharmaceutical sector, for instance, companies lobby for a reduction of the level of governmental regulation on the price of pharmaceutical products. It is possible that, should the general approach of the intellectual property chapter of the TTIP prevail, regulations in many sectors, which are very important for both US and European multinational corporations, would not lead to increased competition but to the creation of cartels whose effects would spread out to countries other than the States parties to the agreements.

Among the most evident issues of the TTIP that come out of the complex negotiation phase, there is the reduction of regulatory differences. The negotiation on the TTIP aims at defining a comprehensive framework that allows for more effective harmonization or convergence of US and EU regulations. In the opinion of some European and North American scholars and, more evidently, of the institutions that are negotiating the TTIP, it should increase consumption and sustain growth, thus fostering investments and job creation. This regulatory convergence has been evaluated in the different TTIP negotiation rounds in which stakeholders have been involved.

Is there any potential regulatory convergence destined to remain a divergence? In other words, might any potential regulatory convergence never be considered – in spite of several theoretical and practical endeavors – as a realignment or harmonization attempt or a regulatory coordination effort?

From this point of view, there emerge some problems, both theoretical and practical, that impact on regulatory convergence concerning labor and industrial relations. This regulatory convergence is certainly opposed by the actors who are on the EU side of the Atlantic, while it is perhaps welcomed by those who are on the other side. The question is whether a potential regulatory convergence between the European and US labor law systems may hinge upon or be determined by the TTIP. In the opinion of some social partners, the TTIP could foster or even determine this convergence process, triggering a race to the bottom, i.e. negatively affecting European workers' social rights enshrined in national and international legal instruments. We should also consider the econometric estimates referred to above, according to which the TTIP would have no significant impact on employment growth and could instead trigger a job shifting effect from Europe to the USA. A question that still needs to be answered is whether the job shifting phenomenon is part of the game that determines the regulatory divergence, maintaining high social protection standards in Europe and keeping them low in the USA.

However, that convergence effect, in addition to being determined by TTIP negotiators or by stakeholders' lobbying actions, whose importance is not fully evident for the time being, could be triggered by the inclusion of clauses regarding international dispute settlement between States and multinationals, and the related right to initiate an arbitration procedure.

The most striking impact from the labor law point view is undoubtedly referred to such clauses. Based on several arguments drawn from existing case law and relatively well-known national cases, the research study that one of the editors of this monographic section is conducting – a part of which is published in this journal issue – demonstrates that the TTIP should not govern stabilization clauses as well as ISDS (Investor State Dispute Settlement) clauses. As can be inferred without making reference to systemic shortcomings featured by both legal systems, all of this would be aimed at avoiding that multinational corporations have a political and legal influence on existing protections provided for by labor law at national level, which are no more in line with foreign investment patterns.

Such a vision is developed also by Lance Compa (ILR Cornell University) in the article included in this section. More in detail, Compa points to the necessity not to adopt a support approach on ISDS clauses, focusing instead on the capacity of the TTIP to maintain labor protections in line with the standards drafted by ILO and other international organizations. From this point of view, Valentina Cagnin (Ca' Foscari University) provides some further points for discussion concerning the relationship between the TTIP and the international sustainable development agenda.

The essay by Massimo Di Pietro (UIL International Department) is far more visionary: it assigns the TTIP tasks and functions that a trade union that looks ahead is expected to suggest – at least with a view to transnational negotiation.

Alessia Mosca (European Parliament) and Valerio Bordonaro lead us into the overall parliamentary debate that has been conducted at the European level in recent years. The authors describe the tireless work of the parliamentary commissions, the interaction between the European Commission and the European Parliament, the outcome of hearings, and the involvement of social partners.