NATIONAL CENTER FOR POLICY ANALYSIS

Opportunities for Small- and Medium-sized U.S. Businesses in the Transatlantic Trade and Investment Partnership

Brief Analysis No. 813 by Gene Lattus July 16, 2015

The Trade Promotion Authority (TPA) bill signed into law by President Obama on June 29, 2015, is expected to lead to a quick resolution of negotiations for both the controversial Trans-Pacific Partnership (TPP), and the less controversial Transatlantic Trade and Investment Partnership (TTIP). The TPP is a trade agreement among 12 Pacific Rim countries, including the United States, whereas TTIP is a U.S. trade agreement with all 28 European Union countries.

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Further, while the Pacific agreement includes some developing countries with significantly lower wage rates than the United States, the Transatlantic agreement is with developed countries, many of whom have significantly higher labor costs than America. TTIP, therefore, is expected to raise the level of trade with Europe, including an increase of U.S. exports, without contributing to the U.S. trade deficit (the value of imports over exports). With the new authority, the president is expected to present the final version of both agreements to Congress for up-or-down votes.

The Transatlantic agreement offers increased trade opportunities for the U.S. economy and, in particular, for U.S. small- to medium-sized enterprises — companies employing less than 500 people. It would formalize an already prosperous trade relationship with Europe and reduce the most costly inhibitor of U.S. business exports: nontariff barriers.

Trade with Europe. With $650 billion of goods traded in 2013, Europe ranks second in U.S. imports and exports among free trade areas and other trade groups [see the figure]:

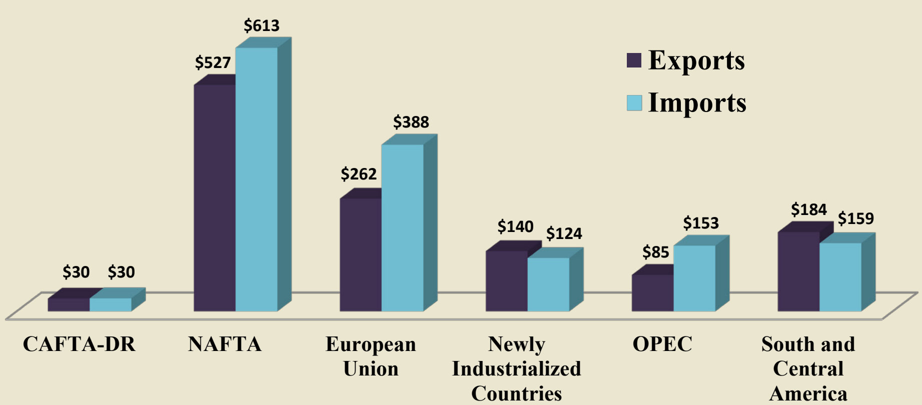
- In 2013, Europe accounted for 16.2 percent of all U.S. exports and 17.1 percent of all U.S. imports.
- In 2011, small businesses exported $76 billion worth of goods to the European Union, representing nearly 17.5 percent of all U.S. exports to those countries.
- An estimated 32 percent of U.S. small businesses export to Europe.

Nontariff Barriers. TTIP could eliminate all existing tariffs between the United States and Europe. However, only a few U.S. industries face significant E.U. tariffs; thus, the removal of tariffs, by itself, would have little effect.

With projected annual gross domestic product (GDP) growth of €119.2 billion (Euros) in Europe and €94.9 billion in America under the agreement, the removal of nontariff barriers would account for most of the benefits to small businesses and the overall economy:

- The most comprehensive version of the Transatlantic agreement has the ambitious objective of removing 25 percent of costs linked to nontariff barriers.
- With TIPP, U.S. GDP is projected to grow an additional 0.39 percent annually through at least 2027.
- The reduction in nontariff barriers would account for three quarters of this growth.

2013 U.S. Trade With Selected Economic Trade Groups
(Billions of U.S. Dollars)



Note: CAFTA-DR– Dominican Republic-Central American Free Trade Agreement; NAFTA– North American Free Trade Agreement; OPEC– Organization of the Petroleum Exporting Countries.
Source: "Country and Product Trade Data: Seasonally Adjusted by Selected Countries and Areas 2009-2014," U.S. Census Bureau Trade Division, June 9, 2015.

The trade barriers in individual countries consist of large and complex systems of technical regulations, conformity assessment procedures and intellectual property protection (IP) processes that may or may not have consistent practices, documentation standards and timelines across the E.U. These barriers translate into extra costs U.S. businesses may not easily absorb.

Among the top concerns of U.S. small business are:

Standards and Regulations. In some cases, businesses have had to hire European companies to provide testing or to help navigate the complex system of barriers, reducing their profits. The International Trade Commission reports U.S. companies are concerned that barriers currently have a greater effect on their profits since costs are fixed and assessed regardless of the volume. Larger firms can better absorb these costs.

Intellectual Property Protection. Although European Intellectual Property (IP) rights are considered strong, U.S. firms have cited the need for more robust protection of proprietary information while compiling trade secrets for regulatory approval. In addition, the cost of patenting in Europe is very high, some 18 times the cost of patenting in the United States. Both of these issues pose major export barriers to businesses that spend precious time and funds developing innovative products or processes. However, the E.U. has taken steps to mitigate the cost and complexities of divergent country patent processes by initiating a unitary patenting process.

Logistics. Because the European Union uses a different and sometimes unclear product classification system, U.S. businesses often run into classification issues that compound into duties and tax issues, and documentation issues. Unable to perform time-consuming research to meet these requirements, or unable to afford to hire consultants, small businesses shy away from exporting to Europe. Small businesses are also not fond of E.U. postal systems. Delays, lost packages and unreliable tracking systems force firms to use private couriers, adding to costs.

Financing Issues. Longer European payment terms also pose a significant finance issue for small businesses. According to one industry consultant, typical E.U. payment terms are around 90 days, compared to 45 days in the United States. This forces U.S. exporters to finance their receivables for an additional 45 days.

Conclusion. The Transatlantic Trade and Investment Partnership will have a positive effect on small- and medium-sized enterprises, increasing access to the European market.

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