U.S., EU Looking At World's Biggest Free Trade Pact

Desmond Butler, The Associated Press

WASHINGTON - After years of battling each other on trade issues, U.S. and European officials are contemplating a dramatic change in direction: joining together in what could be the world's largest free trade pact in an attempt to boost their struggling economies.

Discussions are in the most preliminary of stages and there would be significant obstacles to overcome, including sharp differences on agriculture, food safety and climate change legislation. Still, top EU and U.S. officials have said they want to see it happen. And America's main labour group, often the biggest opponent of U.S. trade pacts, says it wouldn't stand in the way.

Last month, Secretary of State Hillary Rodham Clinton signalled the Obama administration's interest during a speech on trans-Atlantic relations.

"If we get this right, an agreement that opens markets and liberalizes trade would shore up our global competitiveness for the next century, creating jobs and generating hundreds of billions of dollars for our economies," Clinton said.

European officials, including EU Commissioner for Trade Karel De Gucht, have also expressed enthusiasm. Both sides are awaiting a report within weeks by a working group they appointed to study the issue. A positive recommendation could lead to negotiations early next year.

The interest in Washington to take on a big free trade deal is somewhat surprising. U.S. free trade negotiators have had a tough slog since the politically fraught debate over the NAFTA agreement with Mexico and Canada in 1991. Since then, it has become increasingly difficult to push big deals through Congress amid opposition from labour groups. Smaller deals with individual countries, including Peru and South Korea, have been approved.

Efforts to negotiate further reductions in tariffs between the more than 150 countries in the World Trade Organization also have stalled in recent years, in part over disagreements between the U.S. and the EU.

Negotiators would face a host of tricky issues that have previously led to trans-Atlantic trade spats. The two sides currently are fighting over the EU's carbon trading scheme that could penalize airlines not meeting EU standards. There are also substantial disagreements over intellectual property enforcement and food safety issues. More broadly, agricultural issues, including EU restrictions on the use of genetically modified foods and pesticides, are likely to challenge negotiators. Tyson Barker, who directs trans-Atlantic relations at the Washington office of

Germany's Bertelsmann foundation, said the agricultural issues are particularly sensitive in France.

"This will not be smooth sailing in Europe, by any stretch of the imagination," he said.

In the U.S., the negotiations do appear to have the backing of both big business and big labour.

Labour unions have opposed previous U.S. free trade deals with developing countries, arguing that American workers would be at a competitive disadvantage because inferior environmental and labour standards in those countries allow for lower wages. But the giant U.S. labour umbrella organization, the AFL-CIO, says it wouldn't have those concerns in a deal with the EU, arguing that European social welfare and environmental standards exceed those in the U.S.

"The AFL-CIO believes that increasing trade ties with the EU could be beneficial for both American and European workers," the union said in a statement about the working group studying a potential deal.

Less surprisingly, the idea has the backing of the U.S. Chamber of Commerce, which says a deal could have sizeable economic benefits for both sides.

Tariffs between the EU and the U.S. are already relatively low, averaging 5 per cent to 7 per cent. But because of the sheer size of the markets, even marginal reductions could have a big economic impact. A study by the European Center for International Political Economy estimated that eliminating tariffs could boost U.S. exports to the EU by up to 17 per cent and EU exports in the other direction by 18 per cent. The chamber says a deal could add $180 billion to the U.S. and EU economies over five years, with the U.S. seeing larger gains than the EU. A potential deal could also ease trade by streamlining regulations and expanding the mutual recognition of product standards that the two sides use.

"The opportunity is there. It is golden. We should take it," said Peter Chase, the chamber's vice-president for Europe. Chase said it's very likely the two sides will launch talks next year, but he sees challenges for negotiators.

He said both sides have previously negotiated deals, but with much smaller economies, and have therefore become used to negotiating from the strong position. In this case, they will be roughly equals.

But Jeffrey Schott, a fellow at the Peterson Institute for International Economics, sees a potential roadmap in trade deals already in place with South Korea. He said the EU used the U.S. deal with Seoul as a guide for its own deal, which is quite similar.

"What is notable is that each side has been able to make these commitments to Korea, but not to each other," Schott said.

If they follow the Korean agreements, Schott believes the U.S. and the EU could have a deal.

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