

TOP NEWS

After long buildup, U.S.-EU free trade talks finally begin

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- * World's biggest trading partners aim for deal by end of 2014
- * Pact could boost U.S., EU GDP by more than \$100 bln/year
- * Long-running Boeing-Airbus spat lurks in background
- * NSA revelations are poorly timed

By Doug Palmer

WASHINGTON, July 8 (Reuters) - The United States and the European Union, after nearly two years of preparation, start talks on Monday aimed at securing a free-trade agreement to squeeze new economic growth out of the world's largest trade and investment relationship.

"We go into these negotiations with the goal of achieving the broadest possible, most comprehensive agreement that we can," U.S. Trade Representative Mike Froman told Reuters.

But in the months since President Barack Obama and European leaders announced a decision to pursue a landmark trade deal, revelations about U.S. government surveillance of phone and Internet records have cast a shadow over the start of talks.

Charges that Washington was spying on the 28-nation EU soured the atmosphere further, with France suggesting the opening round be delayed for two weeks before softening its stance so talks could proceed.

The United States and the European Union are already each other's top trade and investment partners, with two-way trade that totaled more than \$646 billion last year.

The proposed Transatlantic Trade and Investment Partnership pact would be the world's biggest free-trade deal, covering about 50 percent of global economic output, 30 percent of global trade and 20 percent of global foreign direct investment.

The Centre for Economic Policy Research in London has estimated an ambitious agreement that eliminates tariffs and reduces regulatory barriers, once fully implemented, could boost U.S. and EU economic growth by more than \$100 billion a year.

ONE TANK OF GAS

This week's talks, led by Assistant U.S. Trade Representative Dan Mullaney and his EU counterpart, Ignacio Garcia Bercero, are expected to be mainly organizational, with negotiators split up into 15 different groups to deal with issues ranging from agricultural market access to electronic commerce to investment and competition policy.

One big EU interest is getting exemptions from U.S. "Buy American" requirements on public works projects, while the United States wants the EU to reduce barriers to genetically modified crops that have frustrated U.S. farmers for years.

Former EU Trade Commissioner Leon Brittan called for a U.S.-EU free trade agreement in 1995, but it took the rise of China, the death of world trade talks and the havoc of the global financial crisis to make the time finally right.

Even then, the two sides have tiptoed up to the talks. A high-level working group examined the issue for more than a year before releasing its recommendation in February for negotiations on a comprehensive trade and investment agreement.

U.S. officials, chastened by a decade of fruitless negotiations in the Doha round of world trade talks, said they wanted to be certain of reaching a deal, and reaching it quickly, before launching talks with the EU.

"If we're going to go down this road, we want to get it on one tank of gas," Froman said earlier this year when he was Obama's international economic affairs adviser. "We don't want to spend 10 years negotiating what are well-known issues and not reach a result."

For now, one tank of gas for both sides means reaching a deal before the current European Commission, the executive branch of the EU, finishes its term at the end of 2014.

SENSITIVITIES

But many trade experts believe the talks could stretch into 2015, requiring at least one refill along the way.

Since tariffs across the Atlantic are relatively low, much of the negotiations will be focused on reducing and preventing regulatory barriers to trade in areas ranging from agriculture and autos to chemicals and pharmaceuticals.

"There are sensitivities on both sides that will have to be addressed. But we think the prospect of a broad and comprehensive agreement gives us our best opportunity for achieving something that has eluded us before," Froman said.

U.S. companies such as Google Inc and Facebook Inc also want Washington to tackle EU privacy and data protection rules that put them at a disadvantage in the EU market for cloud computing, social media, mobile apps and other Internet services.

But that goal has been complicated by the revelation that the U.S. National Security Agency uses customer data from many Internet companies to identify potential threats to the United States.

"It's made a difficult negotiating issue even harder," although the gains from a potential overall agreement are so big that they still favor the two sides reaching a deal, said Jeffrey Schott, a senior fellow at the Peterson Institute for International Economics, a Washington think tank.

Meanwhile, lurking in the background of the talks is the world's largest trade dispute over billions of dollars in subsidies for U.S. aircraft manufacturer Boeing Co and its EU rival, Airbus, which is continuing to grind its way through the World Trade Organization dispute settlement system.

Schott said the two sides should move quickly to settle that dispute "out of court," rather than continue to fight it out at the World Trade Organization. Otherwise the United States and the EU could find themselves slapping retaliatory duties on each other's goods at the same time they are negotiating to eliminate tariffs and other trade barriers across the Atlantic, he said.