The Vanishingly Small Official Economic Gains from the CETA Agreement – A Cup of Coffee Every 7 Weeks – and Related Issues

The central argument in favour of CETA has always been economic. The increased trade and investment would lead to economic growth and so more jobs. However, when examined more closely in the official impact studies that are the basis for this, the argument turns out to be very weak indeed and virtually non-existent.

The most optimistic official figure for the economic gains from CETA is the equivalent of a cup of coffee every 7 weeks for each European. This is vanishingly small. Yet it is the best official economic case for the CETA – the result of the most optimistic scenario from the official joint impact study.

This joint EU-Canada analysis arrived at a figure of a 0.08% increase in EU GDP as a result of CETA.[1] This is equivalent to 45 cent per week in Euro terms for each person in the EU, and is the level that would be reached after seven years when the full effect of the agreement would be arrived at; it would be the same each subsequent year. This is the same as a cup of coffee every 7 weeks.[2]

A second study for the EU, the CETA Sustainability Impact Assessment, produced a lower figure, a 0.03% increase in GDP after 10+ years.[3] This ends up at 17 cent per week per person in the EU, equal to a cup of coffee every four months. A detailed assessment of both these studies done at the Austrian Foundation for Development Research considered that these impacts were too high due to the way they were modelled.[4]

One-sided analysis and the need to take into account the other side

Most importantly, however, the analyses leading to the above results *are entirely one-sided* –they consider regulations only as costs for business, and completely ignore the benefits that regulations bring. Those benefits, even when incompletely measured in economic terms, are very large indeed.[5] For example, in the case of adequate regulations for climate change or for finance, the benefits are simply astronomical. The Stern Review estimated the damage from climate change would be equal to 5%-20% of world GDP per annum measured in economic terms in the case of 'business as usual', while the cost of action to reduce the worst effects could be limited to around 1% a year. These and other examples are discussed in another paper.[6]

The central body for regulations in the US, the OIRA, produces an annual report on the benefits and costs of regulations in economic terms for the USA. The benefits are estimated to be six times greater than the costs on average, as can be seen in the graph in the annex at the back this note.[7] The calculations in the official CETA impact studies focus on the costs of regulations, i.e. the green bars in the graph, and ignore the much larger black bars, as do similar studies that use the same standard type of models.[8]

The threat to regulations is the biggest issue of concern in CETA, and detailed studies of the CETA text – both for regulatory cooperation and for investor rights/investment (investor-state dispute settlement or as renamed in CETA, the ICS) – have identified the likelihood of loss of democratic control of regulations and the implications of this.[9] A myriad of studies have focused on the regulatory implications in a wide range or areas.

As discussed in detail the paper on regulatory cooperation just mentioned, regulatory cooperation in CETA is likely to lead to the blocking, delaying and diminishing of both new and existing regulations.

If even a small fraction of the benefits from regulations such as climate change or financial regulation, or indeed many other areas, were diminished as a result of notably regulatory cooperation or investment rules – as seems virtually certain from the nature of the agreement – the consequences of CETA measured in economic terms would be substantially negative. This is especially so as the challenges facing society that require adequate regulation are very great and arguably increasing.

Regulatory challenges facing Europe and the world

The world is facing an era when major action is needed on climate change and financial regulation, and with nanotechnologies, endocrine disrupting chemicals, synthetic biology bringing organisms that have not existed in nature and with unknown properties, the need to take air pollution much more seriously, pharmaceutical pricing, 'net neutrality', data protection, and the problems with the chemical agriculture model, to mention only some of the many regulatory challenges to be faced. These existed before the arrival of the new US administration, which accentuates the regulatory challenge considerably across an extensive range of areas.

CETA should be seen in its wider context of international 'trade' agreements to constrain regulation

The implications of CETA can arguably be seen more clearly by taking into account that it is part of a wider approach. It is one of a number of planned agreements that explicitly aim to constrain domestic regulations and put extensive rules and procedures into place to do so. It is important to take into account that these agreements are predominantly about regulations and investment rules, and not about actual trade in goods or services. The other agreements include TiSA (Trade in Services Agreement) and the EU-Japan Free Trade Agreement, both currently under negotiation, as well as the now defunct TPP and the TTIP soon likely to be stopped at least temporarily.

These 'coalition of the willing' agreements are part of a wider strategy by the richer countries and their largest companies to constrain domestic regulations using the mechanism of trade agreements – which as international treaties override domestic laws. This has been developing since the 1970s and accelerated with the new type of 'trade' agreements from the late 1990s.[10] These new agreements have relatively little to do with trade and mainly concern regulations as well as investor rights. These actors would address the issues that they preferred, such as regulatory cooperation, investor rights, intellectual property, competition, state-owned enterprises, and services (especially foreign investors' rights of establishment across a wide range of services),[11] and in ways that they preferred, and subsequently impose them on the other countries on the richer countries' terms.

At the same time, the richer countries finally abandoned the negotiation of the multilateral Doha 'Development' Round under the WTO, in December 2015. This negotiation, under pressure from developing countries and BRICS, had included prominently issues these countries wanted to address such as agriculture and food security.[12]

Even though the TTIP will now surely not go ahead for some years, CETA can bring many of the benefits of TTIP to US firms, especially in the key areas of regulatory cooperation and investment.[13] Advancing CETA will also advance this set of agreements.

The implications of the new US administration

Arguments have been put forward that with the new US administration taking an apparently strong position against multilateral organisations such as the UN and WTO and indeed it would seem some regional organisations notably the EU itself, including in international trade, that it is all the more essential and urgent to push ahead as quickly as possible with the new type of 'trade' agreements under negotiation, including CETA and the EU-Japan 'Free Trade Agreement'.

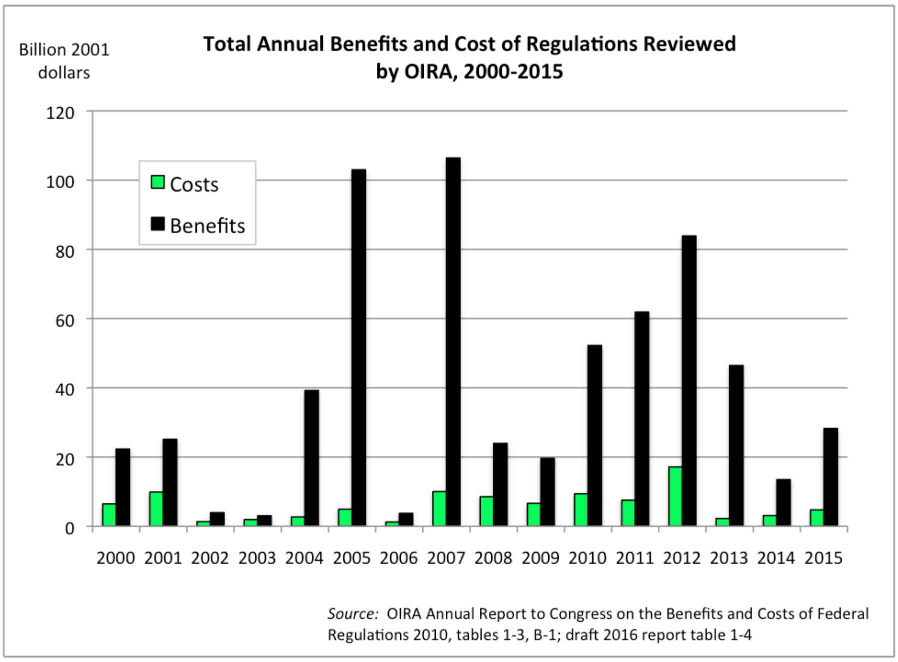
It is also clear that the new US administration and the Republican party majority in Congress, either jointly or through separate initiatives, are threatening to undermine or destroy both domestic regulations and international agreements on climate, finance (including the Dodd-Frank regulations), the environment, labour regulations and many other fields.

To add to this through bringing in CETA and similar 'trade' agreements which undermine domestic regulation by constraining them and putting them outside democratic reach, arguably is exactly the wrong thing to do.

A much more appropriate approach would be to strengthen domestic and international regulations against climate, financial instability and the other key areas, and make fair trade agreements that are genuinely supportive of development in all countries and do not impose the diminishing of regulations for little or no wider economic benefits. Such fair trade agreements are more likely to succeed in being negotiated as they are clearly in the interests of more actors in the system.

Ronan O'Brien
Independent researcher, Brussels

Annex. Total Annual Benefits and Cost of Regulations Reviewed by OIRA, 2000-2015



Note: Regulations for the Executive Agencies are included and not the Independent Agencies, notably the Federal Reserve. The graph includes all 'economically significant' regulations, i.e. having an impact of over $100 million in any year; these are regarded by the OIRA as covering the 'vast majority' of regulations by these agencies that are received by OIRA.[14]

Notes:

[1] *Assessing the costs and benefits of a closer EU-Canada economic partnership: A Joint Study by the European Commission and the Government of Canada*, 2008, p. 55. http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc_141032.pdf. The seven years for full implementation is stated on p. 50.

[2] It is worth noting that the EU-Japan agreement under negotiation and now apparently being accelerated has a similar figure for the most optimistic scenario in its official impact study for the EU: 78 cent per week in Euro terms, equivalent to a cup of coffee per month. Calculated from E. Sunesen, J. Francois, M. Thelle, *Assessment Of Barriers To Trade And Investment Between The EU And Japan*, Copenhagen Economics, 2009, p. 82-3. http://trade.ec.europa.eu/doclib/docs/2010/february/tradoc_145772.pdf.

[3] *A Trade SIA Relating to the Negotiation of a Comprehensive Economic and Trade Agreement (CETA) Between the EU and Canada* (2011), European Commission, Table 6, p. 43; p. 41 n. 13. http://ec.europa.eu/trade/policy/policy-making/analysis/policy-evaluation/sustainability-impact-assessments/index_en.htm#study-geo-14.

[4] W. Raza, B. Tröster, R. von Arnim, *ASSESS_CETA: Assessing the claimed benefits of the EU-Canada Trade Agreement (CETA)*, ÖFSE and AK Vienna, August 2016, p. 7-8 and Section 3. http://www.akeuropa.eu/en/publication-full.html?doc_id=418.

[5] On the underestimation of the benefits in such estimates, which are obtained from cost-benefit analyses, see for example F. Ackerman and L. Heinzerling, *Priceless: On Knowing the Price of Everything and the Value of Nothing*, 2004. The costs are much easier to estimate. The argument in this note is not that cost-benefit analysis of the standard type is desirable, where an attempt is made to convert everything to monetary amounts. Some things are priceless and a superior approach is multi-criteria analysis.

[6] M. Myant and R. O'Brien, *The TTIP's Impact: Bringing in the Missing Issue*, ETUI, 2015. http://www.etui.org/Publications2/Working-Papers/The-TTIP-s-impact-bringing-in-the-missing-issue. The Stern Review on the Economics of Climate Change is available at http://webarchive.nationalarchives.gov.uk/20100407172811/http://www.hm-treasury.gov.uk/stern_review_report.htm.

[7] Office for Information and Regulatory Affairs (OIRA), under the Office of Management and Budget at the White House. For years 2006-2015: OIRA, *Draft Report to Congress on the Benefits and Costs of Federal Regulations and Agency Compliance with the Unfunded Mandates Reform Act*, December 2016. https://obamawhitehouse.archives.gov/sites/default/files/omb/assets/legislative_reports/draft_2016_cost_benefit_report_12_14_2016_2.pdf. For earlier years:
https://obamawhitehouse.archives.gov/omb/inforeg_regpol_reports_congress/.

[8] It is the difference in regulations between countries that these studies address – but only in terms of additional costs for business.

[9] There is a considerable literature on these, of course. To take some examples argued in detail and addressing the implications: for regulatory cooperation: R. O'Brien, *Moving Regulation out of Democratic Reach: Regulatory Cooperation in CETA and its Implications*, AK Vienna, September 2016, http://www.akeuropa.eu/en/publication-full.html?doc_id=422&vID=37. For investor rights: G. Van Harten, *The EU-Canada Joint Interpretive Declaration/Instrument on the CETA: Updated Comments*, Osgoode Legal Studies Research Paper No. 6 Vol. 13, Issue 2. (2017), http://bilaterals.org/IMG/pdf/ssrn-id2858689.pdf. G. Van Harten, ISDS in the Revised CETA: Positive Steps, But Is It the "Gold Standard"?, May 2016 https://www.cigionline.org/publications/isds-revised-ceta-positive-steps-it-gold-standard. G. Van Harten and D. Scott, Investment Treaties and the Internal Vetting of Regulatory Proposals: A Case Study from Canada, May 2016.
http://digitalcommons.osgoode.yorku.ca/cgi/viewcontent.cgi?article=1150&context=olsrps

[10] The history is laid out in the highly regarded book by Andrew Lang, *Trade Law After Neoliberalism: Re-imagining the Global Economic Order*, 2011.

[11] J. Kelsey, 'From GATS to TiSA: Pushing the Trade in Services Regime Beyond the Limits', *European Yearbook of International Economic Law 2016*.

[12] M. Froman, 'We are at the end of the line on the Doha Round of trade talks', *Financial Times*, 13/12/15. European Commission, *Trade for all: Towards a more responsible trade and investment policy*, October 2015, pp. 28-30. See also M. Khor (South Centre), 'Shaky State of North-South Relations', Triple Crisis, 2/8/16, http://triplecrisis.com/shaky-state-of-north-south-relations/

[13] *Moving Regulation out of Democratic Reach*, p. 3-4. See n. 9 above.

[14] OIRA (2016), p. 21 n. 39.