Sir Mike Rake

Venue:	**Europe House, London.** Hosted by the European Commission Representation in the UK
	International Business and Diplomatic Exchange (IBDE) event.
Date:	**Thursday 12th December 2013**
Session:	**13.30 – 14.00.**
	Welcome remarks: Jackie Minor, Head, European Commission Representation in the UK
	Introduction: Rudi Guraziu, Chief Executive, IBDE
	Keynote: Sir Michael Rake, President of CBI and Chairman of BT Group
Session subject:	**Exploring Benefits & Pitfalls of the EU-US Trade Agreement**

It's very good to see you all here, thanks Rudi for that kind introduction, and I'm very grateful to the IBDE for inviting me along to speak to you this afternoon.

For business and the public, it's economic growth that matters. And on that front the UK is doing well at the moment. We're in a fragile recovery, but it's gaining pace and confidence is growing.

The acute crisis in the Eurozone might have calmed slightly over the last few months but it's not disappeared altogether.

Eurozone countries continue to transform rapidly. Think of the modest turnaround by peripheral countries; in Ireland, which will soon make a clean exit from its three-year bailout, or in the once-tanking Greek economy which has broadly kept to its bailout programme. The OCED said in November that growth in Greece is expected to turn positive in the course of 2014.

As the broad-based Continent-wide downturn in economic activity begins to change direction, the possibility of problems bubbling up is, however, never far away. Think of the recent downgrade to France's credit rating by Standard & Poor's, or Germany's trade surplus which is now being investigated by the Commission as being linked to the wider Eurozone's struggle to adjust and rebalance.

These serve to remind us that the Eurozone's economic performance is one of the most significant downside risks to the UK's recovery.

For those of us in the business world we can't kid ourselves that we're home and dry; this slow recovery we're in to cannot be taken for granted at all.

But a turnaround has begun to take hold.

The Eurozone’s economy is finally showing signs of a creeping recovery, even though it’s very fragile beyond the core.

It has edged out of recession and is starting to grow - with deficits and borrowing costs, which not so long ago threatened to upend the single currency as a whole, now much reduced across even the weaker states.

Our slow but steady growth at home (we’re expecting growth this year to top out at 1.4% and we’re looking at growth of about 2.5% in 2014 and 2015), combined with growth abroad, will be the real game changer.

The best way to achieve this is for the UK to keep a firm foot in European trade at the same time as securing a bigger exports foothold elsewhere in the world.

Finding common ground with other EU member states, taking a lead in helping to restore stability, and getting Europe growing again is critical to the UK’s national interest.

Why?

Because the global economic landscape is changing before our eyes – new superpowers are rising in Asia and Latin America – and how we pay our way in the world is critical.

For British business, large and small, the response is unequivocal: membership of the EU’s single market remains fundamental to our economic future and we should remain IN a reformed EU, not be out with no influence.

It’s not an either/or choice – we must maximise openness across the board

- Certainly our import, export and investment patterns are not aligned to the main sources of growth in the coming century.
- Only 6.8% of our exports go to the 4 BRIC counties – just a little more than we sell to France alone.
- We need to boost exports to the high-growth markets outside of the Western world but breaking into new markets will take time.
- Britain’s established markets, including Europe, are likely to be important for some time to come.
- The UK simply cannot afford to ignore the 79% of exports currently going to the EU, US and other developed markets.

T**he UK does NOT face an either/or choice between trade with Europe and trade with the rest of the world. For Business, the UK must have a global future, trading and investing more across the board.**

- To achieve this, the UK must face outwards to the world, more than ever before.

Economies and businesses from across the globe are increasingly inter-connected, as goods, services, finance and people – not to mention knowledge and ideas – cross borders ever more rapidly.

We can't build a stable financial system, regulate the internet or tackle climate change in isolation.

- For the last 40 years, the UK's relationship with the European Union has been the cornerstone of our engagement with this increasingly integrated world.

So the question the CBI has sought to answer in our recent report on Britain's Global Future is the degree to which this relationship will support the UK's ambition in the future.

Looking at the EU itself we have concluded that the advantages outweigh the disadvantages and our membership has contributed to higher GDP growth than we would have had outside.

- The EU Single Market is the biggest in the world, opening up a 500 million-strong consumer market to UK goods and services

- Membership of the Single Market has helped the UK attract investment from around the world, both from Europe but also further afield: think of Japanese and other car manufacturers revitalising our automotive industry.

- Membership of the EU has also helped cement the UK as the world's leading financial centre, giving UK businesses access to the finance they need to grow.

- Free movement of Labour has been a positive for business – allowing UK citizens to be deployed abroad and firms to plug skills gaps.

  All this has directly boosted the living standards of UK citizens.

- It is not unreasonable to infer from a literature review that the net benefit arising from EU membership is somewhere in the region of 4–5% of UK GDP or between £62bn and £78bn per year – roughly the economies of the North East and Northern Ireland taken together

But the EU isn't perfect and membership has also had its costs:

- Common rules are essential to the Single Market but the UK's lack of unilateral control over some regulations is the biggest downside, especially on employment law where the Temporary Agency Workers Directive and Working Time Directive have caused deep frustration
- The European Commission has a strong tendency to regulate, giving a sense of 'mission creep'

The report also looks at trade patterns in some detail and concluded that Europe is essential to helping us compete in the new markets.

- The EU has helped open global markets on terms that support the UK's global trading ambitions.

  With 30 Free Trade Agreements (FTAs) already signed, and a recent agreement reached with Canada, British businesses have access to markets worth $24 trillion. If current negotiations with Japan and the US prove successful, that will grow to $47 trillion.

  Access to goods, labour and resources from within the single market helps make us more competitive in international markets.

And finally, we have to focus on a positive vision of reform so Europe does fewer of the things we don't want, and more of the things we do: boosting competitiveness and resisting bad policies that work against growth and stability.

Let's be clear. Being a member of a reformed EU is the best way to preserve market access.

Our priority has to be to ensure that Europe supports the UK's global business ambitions.

Which brings us to trade - the topic at hand.

As you know, on its own, the TTIP won't mitigate Europe's current lack of competitiveness, but if it's negotiated well then the benefits will be very significant.

An independent study[1] has projected that EU exports to the US would increase by 28 per cent, or €187 billion, each year as a result of liberalising trade.

Conservative estimates from a study[2] published last month show that the TTIP could add £10 billion a year to the UK economy.

The EU and US have a combined population in the region of 800 million, almost half of the world's GDP, and 30% of international trade.

I doubt we'd all be here today if we didn't want to see an ambitious agreement reached and, most importantly, ***there is no alternative***

So why does TTIP matter?

[1] *Reducing Transatlantic Barriers to Trade and Investment: An Economic Assessment* Centre for Economic Policy Research, London
[2] *Estimating the Economic Impact on the UK of a Transatlantic Trade and Investment Partnership (TTIP) Agreement between the European Union and the United States* Centre for Economic Policy Research, London

- It makes sense for the UK, EU and US to work together to reduce transatlantic trade barriers through TTIP. There is no realistic alternative to TTIP. If we weren't to go down the bilateral FTA route, no progress would be made in our trading relationship with the US at all.

- You could well ask if the WTO is an alternative…

- Well, it's true that we have received excellent news from the WTO's Ministerial Conference in Bali last week where, after some very lengthy negotiations, a series of ten agreements were agreed to help safeguard the rules that underpin the multilateral trading system.

- Of most direct relevance for the UK is the agreement on trade facilitation, which contains legally-binding provisions for Governments to speed up customs procedures around the world, helping exporters to get their products into markets quicker, and benefitting any businesses with links to global supply chains.

- However, as it stands, we cannot rely on WTO negotiations to deal with the sort of market access and regulatory barriers we currently face with the United States.

- The Bali package should be seen an important step in the right direction for the WTO. But we should remember that the meat of the Doha Development Agenda – issues such as agriculture market access, industrial tariffs and services – still remain unresolved.

- Even with this latest deal, the WTO is realistically not in a position to provide solutions any time soon to the complex trade issues we need to address with the US.

- Therefore, we have to decide whether we maintain the status quo, and allow our trading relationship with the US to meander along as it does now.

- Or, we work together in the face of massive global competition to break down barriers to trade and help set globally relevant rules and standards.

<u>What matters to the CBI</u>

- The CBI is a strong supporter of TTIP because members tell us that there is a clear business case for it. Many aspects of the negotiating agenda are of interest to the CBI – from energy and government procurement to investment and IP – but let me pick out a few key points that are particularly high on our priority list.

- **First, the obvious one – tariffs.**
- It is incredible in the modern world economy that import tariffs designed to protect markets from overseas competition are still applied on goods shipped across the Atlantic. Tariffs are in most cases relatively low, but tariff elimination has to be a top priority in TTIP given the importance of intra-industry UK-US trade. Some companies would immediately make dramatic cost savings running into hundreds of millions of pounds a year because of full tariff elimination and the benefits of this will filter through the supply chain even to non-exporters.

- **Second, the transatlantic services economy is also very important**.
- The US and UK are the world's top two services exporters according to the WTO, so we have a lot to gain from an ambitious agreement on trade in services. Longstanding and very complex barriers can be found in key sectors like aviation, financial services, ICTs and express delivery. Tackling barriers to services in trade is by no means an easy thing, and market access barriers are often interlinked with regulatory barriers, but it's crucial if we really want this trade agreement to deliver growth and jobs.

- **Finally, and arguably most importantly for the long-term success of TTIP, we need to see concerted action to reduce regulatory barriers to trade in key goods and services sectors.**
- This is where the clear economic value lies. Already there has been a lot of attention on the regulatory aspect of these negotiations, with some anti-free trade commentators arguing that TTIP is a deregulatory agenda that will bypass democratic processes and undermine the right of Governments to regulate. **This is not the case.**
- **TTIP will in no way undermine the right of either side to regulate**. Instead, and this is a message that business really needs to get out there, TTIP is about working with our top trading partner to smooth out regulatory barriers to trade where there is a clear opportunity to do so.
- Currently, there are many examples in sectors like automotive, pharmaceuticals and chemicals where duplicate standards and testing requirements apply. Regulatory divergence has also been flagged as a key problem in the financial services sector. Many of the problems come from an historic lack of co-ordination rather than any deep-rooted ideological difference, and we should focus on sensible solutions to introduce more regulatory compatibility between the EU and US. Critically, this is very

different to the type of deregulatory agenda that some TTIP critics have been talking about.

<u>What matters to BT</u>

- A key part of TTIP is about developing mechanisms to ensure that EU and US regulators co-operate and work together in a more conjoined manner in the future than they have in the past, thereby creating greater predictability in the regulatory environment across the transatlantic economy which is important for long-term investment decisions.

Speaking with my BT Chairman hat on for a moment, this is particularly important in the technological sphere.

- BT believes an agreement on a framework to set forward-looking regulatory convergence in high technology through principles, norms and standards for the EU-US would aid growth, and also aid competitiveness with third markets. Examples could include: data and cyber security; nanotech; cloud computing; e-health records; e-mobility – the list goes on.

- The suggestion by EU Trade Commissioner Karel de Gucht at a speech in Prague on 10 October of some form of standing Transatlantic Regulatory Coordination Authority to look at the complex on-going issues post a framework agreement by 2015 looks interesting. How to get the various independent regulatory agencies talking to each other positively within the overall TTIP construct will be critically important.

- A focus on the most asymmetric and significant non-tariff barriers in existing regulations would help to ensure that the often independent regulatory agencies across the Atlantic have clear objectives and timetables post any deal. In telecoms, the key issue is fair and transparent wholesale access to incumbent telecom networks, where the EU has a regulated regime, based in good part on the UK approach, and the USA does not. This very significantly skews competition, and is something we think must be addressed soon by the FCC and through TTIP.

- TTIP also offers an excellent opportunity to open up public procurement in the US, including for ICT contracts, at sub-federal level notably, just as was achieved in the admittedly less complex circumstances of the EU-Canada CETA arrangements.

- All in all, BT strongly supports an ambitious EU-US FTA, and there are strong correlations between trade and ICT. We would expect strong growth in the ICT sector associated with an effective TTIP deal. TTIP, along with the EU-

Japan EPA and the TPP, are likely to lead to the BRICS and others, as well as plurilaterally via the Trade in Services Agreement dialogue, being more outward-looking and proactive on trade dialogue, with less accent on any protectionism.

Closing remarks

As I said earlier, on the basis of conservative estimates TTIP is expected to deliver £10 billion a year to the UK economy.

The transatlantic trade relationship is already strong, but we can clearly make it much stronger.

The key is to make sure that negotiators have the opportunity to get on with it and make headway. I welcome the fact that it was possible to quickly re-arrange the second round following the US Government shutdown, and which took place in Brussels last month. This indicates a clear willingness for the EU and US to make swift progress.

Difficult discussions will of course arise throughout this process, as we have seen recently with the data privacy debate flaring up.

Business needs to continue to bang the drum for this deal in order to make it happen. This is a top policy priority for the CBI, and we will remain closely engaged to ensure that all political efforts are centred on delivering a high quality, ambitious agreement for UK business.