

Transatlantic Regulatory Trade Barriers

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This week, trade negotiators from the U.S. and EU are meeting in Washington to begin discussions on the proposed Transatlantic Trade and Investment Partnership (TTIP). Even before negotiations have begun, issues such as protection for French films from well-financed Hollywood competition have generated significant controversy. Will *Iron Man*, *Superman* and *Spiderman* be able to break open the French market? There is little doubt that liberalizing trade between two of the world's economic superpowers, with all of their various interest groups, presents some challenges.

Beyond the traditional free trade versus protectionism debate, however, there is a larger issue. These talks are not just about free trade as it is traditionally understood, with lower tariffs and constraints on other forms of protectionism. They are also about domestic regulations that have an impact on trade.

Some large figures have been thrown around as potential benefits of addressing the problem. One study suggests that a 50 percent reduction in "non-tariff barriers," such as "unnecessary and discriminatory regulations, rules and standards in specific product sectors," could boost GDP by \$161 billion in Europe and \$53 billion in the United States. Actual gains from eliminating arbitrary regulatory divergences are likely to be much smaller than this, but could nonetheless be significant.

What exactly are these regulatory trade barriers? There is some uncertainty as to the scope of the issue, but one aspect is clear: Regulations differ considerably across countries. All countries regulate, but they do not always regulate in the same way. Regardless of your view of the merits of specific regulations, having divergent regulations around the world is clearly inefficient and leads to higher costs in a number of different ways.

For example, pharmaceutical companies may need to go through the approval and testing process multiple times, once for each market where they wish to sell. This is costly, and is reflected in the price paid by consumers.

In addition, in some instances, different regulations lead to products being made differently for individual markets. Multiple production lines are needed to accommodate the various products, which reduces economies of scale.

You might think that the different regulations exist in response to national policy preferences, and that is the case on occasion. For example, European reluctance to allow the sale of genetically modified foods is based in part on the strongly held feelings of its

citizens (putting aside the issue of whether there is a scientific basis for the fears). In such cases, eliminating the differences in regulation may not be possible.

In many instances, however, the differences are more arbitrary than policy-based. Recently, some non-American carmakers have developed sophisticated car headlights that adjust automatically in response to surroundings. While these headlights are available in Europe and other places, they have not been approved for sale in the United States. This deprives U.S. consumers of additional choices, and forces producers to make cars differently for different markets.

And these issues are not just about products. They also apply to a wide range of services regulations. One example is financial services, where different regulatory regimes cause problems for companies involved in cross-border transactions.

There have been previous attempts to deal with the problems of regulatory divergence in trade negotiations, without much success. The issue is currently under discussion in the Trans Pacific Partnership trade talks. But now in the Transatlantic talks, negotiators have put the issue front and center. By making this issue a priority, perhaps they can, at long last, make some progress.

Dealing with these regulatory conflicts will not be easy. We should keep expectations realistic here. The U.S. and EU trade negotiators will have their work cut out for them.

But even incremental progress would be a success. It would be of great value if we could at least remove some of the arbitrary differences between regulations that act as a barrier to trade. Batman may continue to have trouble breaking into the French film market. At the least, though, it would be nice if he did not have to make modifications to the Batmobile in order to drive it in both the United States and Europe.