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Free trade with Europe may be a tough fight

By David Nicklaus February 24, 2013

Trade has been a constant source of friction between the U.S. and Europe, with fights over everything from hormone-laden beef to subsidized airplanes.

Now, leaders on both sides of the Atlantic want to put the contentiousness aside and negotiate a free-trade agreement. Eliminating all, or even most, trade barriers between the world's two richest economies is a tall order, but the potential gains are huge. It's been estimated that a trans-Atlantic pact could boost U.S. gross domestic product by roughly 1 percent, or around $160 billion.

Why are these longtime rivals suddenly interested in becoming partners? In large part, it's because leaders are desperate to deliver economic growth.

"What's motivating policy most right now is the unemployment levels in both economies," says Paul Christopher, chief international strategist at Wells Fargo Advisors. "They have to do something to stimulate jobs."

A trade agreement would do that by cutting tariffs, coordinating regulations and encouraging cross-border investment. Tariffs are relatively low, averaging 3.5 percent on European goods coming to the U.S. and 5 percent on American goods going the other way. Moving them to zero will help exporters on both sides, but regulations probably offer a bigger chance for savings.

Daniel Ikenson, director of trade policy studies at the Cato Institute, uses the example of washing-machine cords. They're required to be 3 feet long in the U.S. and 1 meter in the EU. The 3.4-inch difference complicates manufacturers' supply chains and raises their costs.

Imagine the savings, too, if a drug company could get its products certified just once for the U.S. and Europe, rather than having to run expensive trials in both places.

“Businesses on both sides of the Atlantic agree on the need for coordination,” Ikenson says. “Where you’re going to find the resistance is from the regulators themselves.”

That’s not the only potential source of resistance. Interest groups in both Europe and the U.S. will fight to have their issues included, and may oppose the deal if it doesn’t change the status quo.

Italian cheese producers, for example, don’t like U.S. dairies using the word “Parmesan,” which in Europe is a protected geographic label.

The joint announcement of the talks leaves room for “special treatment of the most sensitive products,” and much of agriculture may fall into that category. Carve-outs will be the price for getting a deal within two years, as officials say they want to do.

Ikenson fears that the biggest obstacles to trans-Atlantic free trade may be on this side of the ocean.

President Barack Obama said in his State of the Union address that trans-Atlantic trade can support “millions of good-paying American jobs,” but Ikenson questions the president’s commitment.

Obama, he notes, has been working on a Trans-Pacific Partnership for more than a year but has yet to ask Congress for fast-track negotiating authority, which probably is necessary for getting a deal done. Obama also has yet to name a replacement for U.S. Trade Representative Ron Kirk, who is due to leave office this week.

So, despite all the optimistic talk, a trans-Atlantic free trade agreement is a long way from becoming reality.

At least Obama and his European counterparts are talking about the potential for trade to create jobs; that’s far better than threatening sanctions against one’s rivals. In trade law, though, the devil truly is in the details, and thousands of details must be worked out before we can start counting those jobs.