Europeans urge US to push power button on trade deal

By Shawn Donnan in London

Ask anyone in European business what the most daunting longer-term issues confronting them are and it is unlikely to take much time before they cite energy costs.

Even before Vladimir Putin’s Russia turned into the EU’s most belligerent neighbour, the reality was that Europe was facing a long-term energy crisis. The shale oil and gas booms have radically lowered the cost of energy in the US and given American manufacturing a competitive boost. That has caused more than a measure of angst among European businesses as they fret over their long-term international competitiveness.

One solution to many in Europe seems obvious. With a vast new trade pact – the Transatlantic Trade and Investment Partnership – being negotiated with the US, there is a strong case for making sure the deal helps guarantee access to that same cheap energy. Moreover, as officials on both sides of the Atlantic have argued publicly, the ultimate goal of the exercise is knitting two ageing economies together as part of a strategic response to the rise of China and other emerging giants. Removing the barriers to trade for a key economic ingredient surely makes sense.

Mr Putin has, of course, been doing his best to help that argument in recent months via his hardening stand on Ukraine and the annexation of Crimea. A massive natural gas deal with China sent a signal that Russia intended to reduce its reliance on European customers. This month’s downing of the Malaysia Airlines Flight MH17 over eastern Ukraine, seemingly by pro-Moscow rebels, will also undoubtedly rekindle the argument.

The truth, however, is that a year after negotiations began, EU officials are becoming increasingly frustrated with the US over the energy component of TTIP. With good reason – discussions around one of the biggest potential prizes of the transatlantic deal are proceeding slowly.

At the sixth round of negotiations in Brussels this month, EU officials were again pressing their case for the TTIP to include a separate “energy and raw materials” chapter. The US side, meanwhile, was again politely deferring the question.

The case advanced by the EU has been very simple: energy represents a key component of the transatlantic relationship and ought to be tackled head-on, with its own legally binding chapter.

Moreover, as a European Commission official pointed out in a leaked internal discussion paper, such a move would help Brussels sell TTIP to the 28 EU states at a time when the talks are facing an increasingly raucous opposition in Europe.

The US has argued for a more nuanced approach. Washington’s policy is that signatories of trade deals with the US receive what is in effect domestic treatment when it comes to exports of liquefied natural gas.

US trade officials also point out that Washington has not included a separate energy chapter in any trade deal since the North American Free Trade Agreement with Canada and Mexico, which went into effect 20 years ago. Energy can be dealt with perfectly well as a topic sprinkled through any agreement.

But the debate is also one that President Barack Obama would rather not have right now.

The strategic logic for bolstering transatlantic energy links is strong. But energy and the environment are also divisive subjects within Mr Obama’s Democratic party, which is facing a tough fight to retain control of the Senate in November’s midterm elections. When that
European Commission policy document leaked this month, US environmental groups quickly seized on it as a sign that the EU wanted more US fossil fuels.

There is, therefore, a good political reason behind the US trade negotiators telling their European counterparts to, at the very least, be patient and not argue their case in public until after the midterm elections. But that is an increasingly hard position for the EU to adhere to. Power politics is certainly back – if it ever left – in energy. The EU just wants a realistic recognition of that.

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